



# **To a Deeper Engagement**

## **The JCPOA Effect on Indo-Iran Relations**

**Manpreet Sethi, Ph.D**

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**MONOGRAPH SERIES**

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THE JCPOA EFFECT ON INDO-IRAN RELATIONS

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# *Contents*

<i>Preface</i>	<i>vii</i>
Introduction	1
Chapter 1 The Origin and Extent of Iran's Nuclear Efforts	9
Chapter 2 The Road to JCPOA	18
Chapter 3 India-Iran Relations 2005-2015	34
Chapter 4 Opportunities and Challenges in Indo-Iran Relations	47



## *Preface*

With the conclusion of the Joint Comprehensive Plan of Action (JCPOA) in July 2015, a major country of the world suddenly became available for international engagement and commerce. Iran is not a small nation by any standards. The second largest country in the Middle East, it has a population of nearly 80 million, 60 per cent of which comprises of people under the age of 30. The only country that has a coastline that abuts the Indian Ocean and the Caspian Sea, its proximity to the Straits of Hormuz (a critical sea lane of communication) grants it a unique geostrategic significance. Over the last decade and a half, the nuclear issue had virtually entirely consumed the country's polity and diplomacy, even as sanctions constrained its economy. All this is set to change if the JCPOA continues to be successfully implemented.

India considers Iran as a part of its extended neighbourhood. Lying just beyond Pakistan, it has in recent times been solely identified as an energy supplier. Indeed, before India had to scale back its oil imports from Iran as a result of UN imposed sanctions, it had been importing as much as 11 per cent of its oil requirements from the country. Many other areas for bilateral cooperation were also identified in the 2000s; but nothing much could be realized as a result of the strained relations of Iran with the rest of the world on the nuclear issue. The lifting of the sanctions in 2016 has opened an opportunity for India to resume and deepen its relations with Iran. It could now move from the 'correct' relations it maintained from 2005 onwards to a deeper engagement, given that the scope for interaction is immense.

I am grateful to the National Maritime Foundation for offering me this opportunity to explore India-Iran relations in the contemporary context of Iran's mainstreaming after a long period of isolation. While I had always been interested in the nuclear developments between Iran and its negotiators and the impact these would have on the non-proliferation regime, this study has enabled me to widen the scope into better analysing what the JCPOA effect will be on the bilateral relations of the two major regional powers. Dr Vijay Sakhuja, Director NMF, and Capt. Gurpreet Khurana, Executive Director NMF, must be given the credit for compelling me to broaden the span of the initial project. Indeed, their insistence has enabled me to better appreciate the dynamics of India-Iran relations.

There are several areas of bilateral convergence that offer many opportunities that can be jointly exploited by India and Iran. However, there are also many challenges that are sure to confront the relations. A good start has been made in 2016 with the recent visit of Prime Minister Modi to Iran. He has returned after having evoked the spirit of *dosti* and having signed a dozen Memoranda of Understanding. But then, so have other international leaders, since Iran is not short of suitors today. India will have to move fast to deliver some quick and assured results in order to consolidate its position. This study offers some constructive suggestions on where and how India should play its cards.

## *Introduction*

The public revelation of clandestine Iranian nuclear facilities in 2002 by Iranian dissidents immediately brought focus on the intentions behind Iran's nuclear programme. Iran responded by countering these allegations and proclaimed a purely peaceful nature for its nuclear programme. It took the international community 13 long years to resolve this 'Iranian nuclear issue' that cast a long shadow on international security and non-proliferation. The clouds appeared to lift on 14 July 2015 when the six countries that had been engaged in difficult negotiations with Iran finally announced the conclusion of the Joint Comprehensive Plan of Action (JCPOA), more colloquially called the Iran deal.

The journey to this juncture was indeed long and arduous, dotted with many failed negotiations, allegations, and counter allegations. What finally enabled a successful compromise was the grit and determination of all the actors to stay the course despite distractions. Also, the number of nations involved made this a unique case of multilateral diplomacy. Negotiations with Iran had initially started with only three European countries—France, Germany, and the UK. Gradually, China, Russia, and the USA also joined in, making it a group that the EU prefers to call EU 3 +3, but which the others refer to as P-5 + 1.<sup>1</sup>

Whatever one may call the core group of negotiating nations, the essential point to highlight is the unity of interest that they displayed to crack the problem. This was despite the differences in their own bilateral relations. President Obama provided dogged support for the negotiations even in face of strong opposition from the Republicans,

and even some influential Democrats, besides a very vocal Israel. President Hassan Rouhani, meanwhile, persisted at the talks with his personal conviction in the rightness of the action. Fortunately, he also had the backing of the Supreme Leader. It was always clear that Iran and the USA would have to engage in direct negotiations for anything worthwhile to work out, given their long standing historical grievances and mistrust. But this is not to discount the role of the other players. The persistent diplomacy of the EU provided the platform for the two deeply mistrustful interlocutors to engage in a multilateral setting. China's economic interest in mainstreaming Iran, and Russian desire to be seen as playing a constructive role at the international high table were equally critical in making the JCPOA possible. For Iran, the presence of China and Russia, its traditional 'friends', was a factor of comfort. For the USA, their presence was a demonstration of international unity on an issue of common concern.

The JCPOA is an interesting agreement for many reasons. One of its kind, it has been subject to many interpretations by different sides. Each has highlighted aspects that suit its own constituency. One Western analyst aptly describes the value of the deal for the USA and Iran in these words:

for the US and its partners, the JCPOA was a tool to remove the risk of near-term Iranian nuclear weapons breakout and to make it harder thereafter. For Iran, the JCPOA was a tool to remove much of the sanctions pressure that had badly savaged the Iranian economy for the previous five years.<sup>2</sup>

Indeed, the ruling powers in Iran have used the deal to showcase the country as a powerful and technically advanced one that stood up for its rights in difficult negotiations with the major powers of the world.

In the Iranian perception, by having managed to retain the right to enrichment—even if to low levels—the country has vindicated itself

and its pride. The sense of pride in the country's nuclear achievements is not a tradable commodity for Iran. And, this strain entered the programme early in its life. It may be recalled that, after the Indian nuclear test in 1974, when the Shah of Iran was questioned on whether Iran was interested in nuclear weapons, he said that he would be only if "20 or 30 ridiculous little countries are going to develop nuclear weapons". This was not because these countries would pose a security threat to Iran but because it would be "an affront to Iranian pride."<sup>3</sup> Four decades later, Iran's Supreme Leader Khamanei echoed the same thought in a speech to mark the National Nuclear Technology Day in April 2014. He said, "the activities of the Islamic Republic in the area of nuclear research and development will not stop in any way. None of the nuclear achievements of the country can be given up."<sup>4</sup>

Also evident in the Iranian narrative is an emphasis on the sense of justice. In the 1980s, when Iran criticized the IAEA for not taking action against Iraq for its repeated attacks on Bushehr, it was highlighting the iniquity of the international institutions that were weighed in favour of the major powers. It was a case of the "defiance of a modernizing state overly confronting the system that denied it justice."<sup>5</sup> In 1988, Ali Akbar Velayati, then Foreign Minister, articulated the Iranian worldview thus:

For the liberation of their territories and to bring justice to the aggressor, the Muslim people of Iran could count only their own efforts and sacrifices and not on the international organization allegedly entrusted with the maintenance of international peace and security.<sup>6</sup>

Indeed, the world's hypocrisy and an unjust system have underpinned Iran's narrative of victimization.

The driving force of Iran's actions in the nuclear domain has been a desire to defy an unfair arrangement by wresting its due. It is interesting how the nuclear programme has been used by Iran's political leadership at different times to symbolize different sentiments. The

Shah envisioned it as a tool to make the country modern and Western. On the other hand, the Islamic Republic saw it as a means to be non-Western and defiant. While the Shah wanted Iran's nuclear programme to become 'equal' to the West, the revolutionary regime wanted to retain it precisely because the West insisted that it should abandon it. So, in defying the USA, Iran was being 'equal' to it. By this logic, the larger strategic goal of Iran's nuclear programme may always have been beyond the bomb. Of course, the country did have security issues and dabbled with the idea of a nuclear deterrent. But, the programme was also used so often for fanning nationalism that Iran became a prisoner of its own rhetoric, and the programme came to symbolize national self-respect and a sense of autonomy.

The JCPOA, therefore, became possible only when these issues were addressed. It provides a framework for Iran to resume meaningful relations with the international comity of nations. Moving in this direction, over the last one year, Iran has engaged with several countries across the globe. Also, milestones have been achieved towards the implementation of the agreement. This started from January 2016—that is, after the IAEA closed the probe into Iran's Past Nuclear Activities on 15 Dec 2015. IAEA Director General Yukiya Amano presented the findings of his Agency, and offered the assessment that while Iran had indulged in a range of activities relevant to the development of a nuclear explosive device prior to the end of 2003—and for a bit after that—these activities did not go beyond feasibility and scientific studies. While admitting that the IAEA could not reconstruct all the details of Iran's past activities, he nevertheless concluded that “The Agency has no credible indications of activities in Iran relevant to the development of a nuclear explosive device after 2009.”<sup>7</sup> With this closure of the case on Iran's past military activities, the implementation of the agreement started, and has continued satisfactorily.

Iran has claimed a perking up of its economy. The most immediate benefits have been in the upsurge in its oil exports. By April 2016,

just four months after the Implementation Day of the deal, Iran was exporting oil to the tune of 1.7 million barrels per day, up from 700,000 mbpd during the period of the sanctions.<sup>8</sup> Before the sanctions, Iran had been exporting 2.3 mbpd, and it hopes to recover to the same position in the coming year. Meanwhile, some of the formerly blacklisted Iranian banks are reconnected to SWIFT, and inflation is down to 12 per cent compared to 40 per cent in mid-2013.<sup>9</sup> These are, of course, baby steps and there are voices in Iran that express dissatisfaction at the gains of the deal.

Such expressions are indications of the sort of issues that could still unravel the deal. For the moment, Iran seems relatively better placed after the recent elections in March 2016—held soon after the deal was beginning to be implemented—strengthened the hands of President Rouhani. The vote was seen as a sort of a referendum on the nuclear agreement, indicating a wider desire of the Iranian people to elect leaders who can get them out of political and economic isolation. Going by this verdict, President Rouhani seems to have earned himself a popular mandate to continue down the path he has chalked out in the JCPOA. Of course, dissidents persist. The Iranian Revolutionary Guards Council (IRGC), which has described the deal as ‘nuclear sedition’, lost no time in flexing its muscles with a couple of missile launches in March 2016. And, the Supreme Leader Ayotallah Khamenei has also warned against any attempt at ‘infiltration’ by the West.<sup>10</sup> Nevertheless, President Rouhani has, for now, managed to keep his focus on fulfilling commitments under the JCPOA, and welcoming leaders from across the world to sign scores of bilateral agreements.

There are more chances of things going wrong at the US end, particularly as the domestic political situation heats up in the run up to the Presidential elections later this year (2016). Already, not many Americans, in the Congress or out of it, have solidly put their weight behind the deal. A Gallup poll in mid-Feb 2016 showed 57 per cent of Americans as being opposed to the agreement, and only 30 per cent

approving it.<sup>11</sup> President Obama is doing his best to kill any legislative action that could jeopardize the JCPOA; but its future will seriously depend on the next occupant of the White House.

Meanwhile, the EU, China, and Russia will have to remain constructively engaged with the implementation process, and watch out for any drastic action by either Iran or the USA that could rock the JCPOA. One such effort was evident in the wake of Iran's missile tests, which were certainly criticized, but were not pronounced as being in violation of the deal since the missiles could not carry any nuclear warhead. More such pragmatism will be needed. For now, Russia has already started receiving the enriched uranium that Iran must remove from its territory, and China has started work on redesigning the Arak reactor. Slowly, as all sides build confidence in each other, and as the benefits flowing into Iran begin to make a difference, the deal will acquire surer footing. Hopefully, a vested interest of each to avoid the violation of the agreement will develop.

Where does India stand in all this? It is not a direct party to the JCPOA. However, given its historical relationship with Iran and its principled stand on non-proliferation, there is undeniably plenty of scope for India to play a role in facilitating conditions that help in sustaining this agreement. Iran has for long been an important energy supplier for India—a relationship that was disrupted by UN sanctions. Iran is also a significant player in a region that is critical for India for many reasons: access to Afghanistan and Central Asia, religious affinity, and energy supply routes. Even more interesting is India's natural empathy with the philosophy that Iran seemed to have been propounding with its insistence on its right to have full fuel cycle capability. Many in India felt that Iran was defending its right to technological advancement through indigenous mastery over a high technology as a route to modernity and development. This is much like India's own desire for strategic autonomy. Given such perceptions, India's relations with Iran make for a strange mix of realism and idealism. At the end of the Cold

War, when India was reorienting its foreign policy to fit new realities, many strategic analysts described it as India's shift from idealism to realism. Or, as one author wrote "ideology-based engagement gave way to interest-based relations".<sup>12</sup> Strangely enough, India's relations with Iran straddle both realms. They continue to be based on the ideological foundation of old civilizational engagement and ideals of a just world order, as much as they are based on more material, real energy interests. And yet, despite this connect, the bilateral relationship has never really lived up to its potential.

It is for this reason that the Indo-Iranian relations in the wake of the JCPOA make for an interesting study. The deal has opened many opportunities, and there is no doubt that many countries would be making a beeline to Tehran to exploit these. Can India find its footing in this melee to leverage its 'civilizational ties' with Iran? What can India hope to gain from the lifting of sanctions over Iran? Can the bilateral relationship blossom? What special dimensions of this relationship can India offer, and how far can it reach in meeting its own interests through its engagement with the country? While the mood is generally upbeat, and several Indian government officials have already made trips to Tehran—with the most important one being of the Prime Minister himself on 22-23 May 2016—the challenges too are many, and must be accounted for.

This monograph takes a serious look at India-Iran relations in the contemporary context of Iran's mainstreaming. Divided into four chapters, the first one provides a broad overview of the historical context of Iran's nuclear programme. The second chapter maps the journey to the JCPOA, and explains its contours and commitments. The third part focuses on India-Iran relations in the period 2005–2015, when India was negotiating with the USA for its own nuclear agreement. The last chapter explores the areas of bilateral convergence that offer many opportunities that India and Iran can jointly exploit. However, it also sounds a note of caution by identifying the challenges that will bedevil

the relations. Undoubtedly, the potential for a deeper engagement between India and Iran is rich. A good start has been made in 2016. The coming years will tell whether, this time, the relations will fare better than they have done in the past.

## Notes and References

- 1 This study uses the first nomenclature because the actual text of the JCPOA does so too.
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## Chapter 1

# *The Origin and Extent of Iran's Nuclear Efforts*

Iran began its nuclear programme as part of the US Atoms for Peace initiative. Ruled then by Shah Mohammed Reza Pahlavi, the programme started in 1957, resulting in the purchase of a 5 MW research reactor for Tehran University in 1960. The TRR went critical in 1967, and was fuelled by Highly Enriched Uranium (HEU) provided by USA. The Shah was a big votary of the nuclear programme, and saw in it “the benefits of resource diversification, energy competition and technological advancement.”<sup>13</sup> He was keen to replace the domestic use of oil for generating electricity with nuclear power because he believed that “every barrel burned is a barrel not sold”, with an implication for foreign exchange earnings.<sup>14</sup> It may be recalled that this was also the time of nuclear euphoria, with the promise of cheap nuclear electricity. It timed well with the petro dollars bonanza for Iran. The nuclear programme offered a seemingly meaningful investment avenue, with the accompanying benefits of scientific advancement and prestige for a developing country.

For 17 years after 1957, the Shah personally steered the programme with no public or government debate on it. It was only in 1974 that the Atomic Energy Organisation of Iran (AEIO) was instituted to oversee a programme that was on the verge of a major expansion. The country, around then, had signed contracts with the USA for 6 reactors; with West Germany for 2 reactors; and with France for 5 reactors, along

with arrangement for the supply of LEU. In fact, a 20 year national nuclear road map envisaged 22 nuclear reactors. Interestingly, Iran also bought itself a billion dollar membership of Eurodif, a uranium enrichment plant being built in Europe.<sup>15</sup> It also negotiated plutonium reprocessing technology with West Germany. With an annual budget of US\$ 1 billion in 1976, the AEIO was certainly exploring all avenues of expending it.

The ambitious plans of the Shah to set up nearly a dozen reactors as well as a mastery over the entire fuel cycle were enthusiastically supported by the US nuclear industry. It was salivating when, in March 1975, Iran signed a US\$ 15 billion agreement for the construction of 8 reactors of 1000 MW each, and proposed to invest an additional US\$ 2.75 billion in an American uranium enrichment facility. In return for this investment, the US administration, then under President Ford, readily promised to cover “Iran’s full nuclear requirement under the provision that the fuel represents Iran’s entitlement from their proposed investment in an enrichment facility in the US.” The Carter administration went a step ahead by granting Iran the ‘most favoured nation status’ for spent fuel reprocessing!<sup>16</sup> It may be recalled that Iran had signed the NPT on 1 Jul 1968—the very day it opened for signature—an act that the Shah described as the ‘honourable’ thing to do.<sup>17</sup> It also became amongst the first few signatories to ratify the treaty in 1970, and had even signed the comprehensive safeguards agreement by 1973. Such actions, and the closeness to the Shah, gave Washington the confidence to invest so heavily in the nascent Iranian nuclear programme. Till such time as the Shah was in power, Iran complied with its obligations under the NPT, and remained in the good books of the USA.

By the end of the decade of the 1970s, Iran was well on its way to bringing its two plants at Bushehr on line. Within five years, the AEIO had grown to having 5000 people on its rolls. Hundreds more

were being trained as technical managers and operators for the plants under construction. Nearly a 1000 Iranians were undergoing training in Europe, USA and Asia for research.<sup>18</sup>

However, dramatic domestic political developments in 1979 changed the situation. The Islamic Revolution put a halt to all nuclear activities within the country, and to all cooperation with other nations. The regime of President Khomeini was as completely anti-Western as the Shah had been in love with the West. He denounced the nuclear programme for being “based on Western technology bought from Western countries, and built by thousands of Western contractors”<sup>19</sup>. In fact, one of Khomeini’s first acts was to dismantle the programme by dismissing ‘several thousand’ AEOI employees in order to avert any “westoxification” of Iran. On 17 June 1980, an official suspension of the programme was declared with a categorical statement: “The construction of these reactors, started by the former regime on the basis of colonialist and imposed treaties, was harmful for the country from the economic, political and technical points of view, and was a cause of greater dependence on imperialist countries.”<sup>20</sup>

To recall, in 1980, the first unit of Bushehr was 85 per cent complete and the second reactor was almost 50 per cent done. The war with Iraq had started and all work on the reactors had stopped. Baghdad bombed the reactors and caused damage to them in March 1984 and 1985. Iran’s appeal on this to the IAEA was met with inaction, as was Iraq’s use of chemical weapons against Iranian soldiers. This marked the beginning of the ‘victimization’ syndrome in Iran when it felt completely isolated. It was also the start of the mistrust between Iran and IAEA which only intensified in subsequent years. Iran then described the IAEA as a “mere tool in political power games”.<sup>21</sup>

Given Iran’s experience in the 1980s, it is not really surprising that, by the end of the eight year old war with Iraq in 1988, the country had changed its view on the nuclear issue. Having faced an arms embargo

led by the USA, the use of chemical weapons by Iraq that did not evoke any international reaction, the use of Scud missiles and attacks on its nuclear reactors, Tehran was obviously left feeling vulnerable and without any credible deterrence. Some Iranian leaders, including then Parliament speaker Hashemi Rafsanjani, voiced this dilemma, and expressed themselves in favour of equipping “ourselves both in the offensive and defensive use of chemical, bacteriological and radiological weapons.”<sup>22</sup>

Indeed, the latter half of the 1980s is replete with incidents of Iran reaching out to countries that could help it with conventional arms imports as well as to revive its nuclear programme. It started, in fact, with an attempt in 1985 to invite Iranian nuclear scientists living abroad to come and attend a conference in Tehran. This was eventually held in October 1986 wherein Rafsanjani, in his capacity as Chairman of the Iranian Parliament, urged the scientists to return home and work on the nuclear programme in the spirit of national service.

From 1990 onwards, with the election of Rafsanjani as President, the nuclear programme received a major fillip. AEOI Chief was appointed as the Vice President of the country in a clear show of the importance being accorded to the programme. Yet again, the country voiced lofty nuclear ambitions of producing 20 per cent of its electricity from nuclear power by 2005 with the construction of 10 nuclear power plants.<sup>23</sup> Iran set out on a nuclear path with a focus on developing uranium mining infrastructure, as well as work on uranium conversion and enrichment. In fact, uranium enrichment was of particular interest to the country’s leadership. It was propitious that it was around this time that Pakistan began peddling its nuclear wares. Initial contacts between A. Q. Khan and Iran are reported in 1987. Out of the menu presented to Iran at the time, it chose technical drawings for the P-1 centrifuge, a sample P-1 centrifuge, and later P-2 centrifuges too, as well as some components. These were mostly second hand imports that came into Iran through the 1990s. IAEA has reported 13 meetings

between Iran and A. Q. Khan during 1994 and 1999. Meanwhile, the first phase of enrichment research and development started with the P-1, and lasted until 1993. Working independently on this effort with no participation of other universities or research centres, the AEOI set itself the modest goal: to “understand the behaviour of centrifuges and their assembly, and to try to indigenously produce components.”<sup>24</sup> But it could not—due to the lack of technical expertise—produce components for P-1; neither could it manufacture the centrifuges within the country. In order to overcome these problems, between March 1994–96, Iran further ordered from the A. Q. Khan network “two shipments, containing design drawings” for P-1 centrifuges as well as components for 500 such centrifuges. But, these were found to be of poor quality. A. Q. Khan addressed Iranian complaints by providing Tehran with a “full set of general P-2 centrifuge drawings.”<sup>25</sup> However, Iran soon realized that it still did not have the technical or scientific capability to absorb this imported technology. In other words, Pakistan had been of only partial help.

Next, Iran zeroed in on China and Russia for further assistance. These two countries were chosen not just for their advances in nuclear technology but also for their ability to withstand American pressure given that US-Iran political relations were so hostile. In 1990, Iran and China signed a 10 year agreement to construct a 27 MW plutonium production plant at Isfahan, and two 300 MW PWRs at Esteghlal, close to Bushehr. In 1991, there are reports of Iran secretly importing one metric ton of uranium hexafluoride from China. Neither country reported this sale to the IAEA. China also set up a nuclear research centre for Iran in Isfahan, including a uranium conversion facility (UCF) as part of a 1995 agreement. By 1997, China was Iran's most important nuclear partner. However, this was also the time when the US non-proliferation pitch was at its highest, and the threat of cancelling China's own nuclear cooperation agreement with the USA led China to scale back its nuclear transfers to Iran. One casualty of this was the

cancellation of the UCF. But, Iran had already received documents on the conversion process and engineering designs of the UCF which it never returned and that China never insisted on.

Meanwhile, in the 1990s, Russia too emerged as a nuclear partner with promise for Iran. This relationship, in fact, became symbiotic, in which Russia, having suffered the break-up of the Soviet Union, needed money which Iran had in plenty, and Iran needed Russian nuclear technology and expertise, which Russia was happy to offer. Restarting the construction of Bushehr to make it operational with Russian-supplied LEU was only one part of the agreement that the two countries arrived at by the middle of the decade. Other aspects included building a new nuclear plant, the VVER 1000, a 30-50 MW thermal light water research reactor, the transfer of 2000 tons of natural uranium, and the training of Iranian nuclear scientists. However, the US non-proliferation hammer came down on this deal too. Technical difficulties also arose, as Russia found that its technology was difficult to adjust to Bushehr. Delays created much frustration in Iran; but the lack of Russian expertise with this technology got them to complete the construction only in 2009. Thereafter, it took another five years before the reactor started producing electricity in 2013.

Nevertheless, Russia doggedly continued to support Iran's nuclear programme, and contested Western sanctions on both Iranian and its own firms. It was almost as if Moscow had emerged as Tehran's "official nuclear ally". It defended the country and its own relations with it in the face of American criticism and sanctions. One example starkly brings this out. In January 1999, when USA imposed sanctions on three Russian companies for aiding Iran's nuclear weapons and ballistic missile programme, Moscow responded by tripling its staff working on Bushehr.<sup>26</sup> In response to further sanctions by Washington, Russia accused it of harbouring a "desire to deprive Russian factories of orders."<sup>27</sup>

Thus, by 2000, Iran was working on making the first unit of Bushehr operational, and had plans for more reactors. It had declared nuclear facilities in Isfahan being built with help from China. But, the fact that a lot more activity was going on clandestinely was brought to the fore in 2002 when some members of the National Council of Resistance of Iran (NCRI) made the disclosures in USA. One of the clandestine facilities that came to light at this juncture was the 40 MW reactor at Arak. This was being constructed by a shadow corporation called the Messiah Energy Company of Tehran working as a front for the IRGC.<sup>28</sup> Being a heavy water reactor, it was suited for the production of plutonium, and the secrecy surrounding this development raised suspicions on the actual intentions of Iran. In the same year, the IAEA declared that while it found “no hard evidence of a nuclear weapons programme”, Iran “had acquired the technology to fabricate centrifuges suitable for the enrichment of uranium ... clandestinely through irregular non-state procurement channels.”<sup>29</sup> The clandestine nature of these acquisitions (both of which could lead to nuclear weapons) and the unwillingness of the country to offer a complete account of the activities to the IAEA put a question mark on its intentions. The suspicions increased as more secret facilities tumbled out.

One such discovery that corroborated IAEA suspicions and led to immediate concern was a centrifuge plant at Natanz. Reportedly, it was a

gigantic facility of some 100,000 sq mts built 8 meters underground ... protected by thick concrete walls and impervious to ordinary bombs. Two facilities were planned here in 2001—a smaller scale pilot fuel enrichment plant with about 1000 centrifuges; and a large scale commercial fuel enrichment plant with about 50,000 P-1 centrifuges.<sup>30</sup>

Based on the design received from Pakistan, the capacity of the centrifuges was very limited, and they were not reported to be running optimally either. But the potential for expanding this capacity to move from LEU to HEU was a matter of significant concern.

Soon after the breaking of this news, diplomatic efforts began, spearheaded by the UK, France, Germany, and the E-3, to find a way of stopping Iran's efforts at acquiring capabilities that could move it towards nuclear weapons. Surprisingly, an early resolution of the issue seemed possible when Iran agreed to temporarily suspend its uranium enrichment and reprocessing related activities in Nov 2004 as part of the Paris agreement. But this suspension lasted briefly and, by August 2005, Iran had resumed activity at its UCF at Isfahan.

Meanwhile, there was a new discovery by American intelligence, and confirmation by Iran: that it had been engaged in building another undeclared enrichment facility at Qom. Under construction since 2006, this was being built as a tunnel complex over a military base. Obviously, revelations of nuclear activities undertaken without due information to the IAEA led to more mistrust. Many times since then, the talks went through periods of ups and downs. Iran persisted with its uranium enrichment programme, adding centrifuges and continuing the production of UF<sub>6</sub>. In fact, by this time, its position on enrichment had hardened to the extent that it became a symbol of national defiance and sovereignty. As one analyst put it, it had become "Iran's strength in the face of adversity."<sup>31</sup>

This sentiment persisted, even though in actual reality Iran had only modest success with its centrifuge programme. According to one analyst, "From the operational records obtained through IAEA inspections, it is seen that the current crop of machines being used—with design adopted from Pakistan supplied drawings—have poor efficiency."<sup>32</sup> But, more than the amount of uranium it was enriching, it was the idea of enrichment that was important. Indeed, Iran remained steadfast on its right to enrichment. The nuclear programme had become a symbol of Iranian achievement and its defiance of Western hegemony.

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- 13 Patrikarakos, n. 3, p. 25.
- 14 Ibid. pp. 25–26.
- 15 Eurodif was started by France in 1973 in partnership with Belgium, Italy, Sweden and Spain. Sweden withdrew in 1975, and its 10 per cent share was transferred to Iran for over a billion dollars. After the Revolution, Iranians demanded and eventually retrieved most of their investment. But surprisingly, they seem to still retain the 10 per cent share, though it has not received dividends on its investment since 2007.
- 16 Chansoria, “Indo-Iranian Relation and Defence Cooperation”, in Anwar Alam ed. n. 12, p. 7.
- 17 Patrikarakos, n. 3, p. 54. Interestingly, however, the Shah’s chosen nuclear aide, Akbar Etemad, who also founded the AEOI, found Iran’s signature on the NPT as the ‘dishonourable thing to have done.’ He disliked the fundamental unfairness of the treaty.
- 18 Ibid, p.47.
- 19 Ibid, p.95.
- 20 Ibid, pp. 98–99.
- 21 Ibid, p.110.
- 22 As cited by Arun Vishwanathan, “Iran’s Nuclear Programme: Where is it Headed?” in A. Vishwanathan and R. Nagappa (eds.) *Troubling Tehran: Reflections on Geopolitics*, New Delhi: Pentagon Press, 2013, p. 24.
- 23 For more, see Patrikarakos, n. 3, p.132.
- 24 Ibid, p.125.
- 25 Ibid, p.158.
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- 27 Ibid, p. 146.
- 28 Jeremy Bernstein, *Nuclear Iran*, (Harvard : Harvard University Press, 2014) p.159.
- 29 *Iran’s Nuclear Program: Realities and Repercussions*, Emirates Centre for Strategic Studies and Research, Abu Dhabi: ECSSR, 2006, p.12.
- 30 Bernstein, n. 28, p.165.
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- 32 L.V. Krishnan, “Iran’s Nuclear Activities: A Technical Appraisal of declared Intentions and Reality”, in A. Vishwanathan and R. Nagappa (eds.), n. 22, p. 36.

## Chapter 2

### *The Road to JCPOA*

Diplomatic efforts to defuse the Iranian nuclear issue began soon after the disclosures on its clandestine activity. In the first couple of years after 2002, Iran also seemed to play along with IAEA and the EU. In 2003, after the Libyan confession of its secret nuclear acquisitions, Iran did accept the offer of dialogue with EU-3, and promised transparency in explaining its undeclared activities to the IAEA. This led to what came to be known as the Tehran Agreement. Within Iran, at this time, the nuclear issue was transferred from being handled only by AEOI and Foreign Ministry to the National Security Council led by Hassan Rouhani. As the prime negotiator of the Tehran agreement, he managed to get the EU to settle for a voluntary and temporary suspension of Iranian nuclear fuel cycle activities. This was a significant concession since the EU was asking for permanent suspension in return for the recognition of Iran's nuclear rights as well as discussion on ways on how Iran could provide satisfactory assurances so as to continue to receive nuclear cooperation. It was also decided that Iran's non-compliance would not be reported to the UNSC. EU-3 agreed to this because it then believed that "more would be gained by holding the threat of Security Council referral over Iran than actual referral itself".<sup>33</sup> It was feared that placing Iran in the dock would lead it to end cooperation with the IAEA, thereby closing all doors into its programme.

However, the diplomatic victory of 2003 quickly evaporated in the next year. Investigation into Libya's nuclear acquisitions from the A.Q. Khan network took the trail to clandestine centrifuge acquisitions

by Iran. The lack of disclosure of these led the IAEA to express disappointment with the country. The US, which had never been satisfied with the Tehran deal in the first place, was quick to highlight the duplicity of the country and called for, and even engineered, a threat of its referral to the UNSC at the Sept 2004 resolution of the IAEA Board of Governors. However, the referral was shot down, and negotiations continued between Iran and the EU into 2005.

Accusations, counter accusations, several rounds of talks, periods of optimism and frustration—all were major ingredients of the many negotiations at this time. The setting kept on changing: Istanbul, Baghdad, Moscow, Lausanne, and Geneva. The election of a hardliner President in Mahmoud Ahmedinejad in June 2005 coincided with growing Iranian frustration at no substantial concessions being made in its favour despite its having suspended the enrichment activities two years earlier. In Aug 2005, Iran announced that it would resume production of feed material for the enrichment process, asking the IAEA to remove seals from the Isfahan nuclear facility. The EU responded with an offer of a Framework for a Long-term Agreement that called for a halt to all fuel cycle activities in Iran in exchange for assurances of fuel supply through the creation of a buffer store of fuel enough for five years. But Tehran rejected this demand, insisting on its right to enrichment.

Iran's restart of its enrichment programme led an exasperated IAEA Board to declare it non-compliant with its safeguard obligations under the NPT in September 2005. The vote that followed saw 22 countries of the 35 member Board of Governors, including India, voting in favour of referring Iran to the UNSC. Russia abstained. The resolution, however, was mild, stopping short as it did of setting a timeframe for the referral.

Iran responded by passing a draft law in its Parliament that suspended the Additional Protocol. As things appeared to hot up, Russia stepped

in with an offer which would allow Iran to have access to imported enriched uranium from a Russia based enrichment facility, in which it was also offered a financial stake. But Iran insisted on self-sufficiency. In January 2006, Iran broke IAEA seals on centrifuges in Natanz. The USA dubbed this move as a “wilful violation of everything the UN stood for.”<sup>34</sup> It was determined to get the major powers together to punish Iran, which happened with the IAEA vote in Feb 2006 that finally referred Iran to the UNSC by 27 votes in favour, and only 3—Cuba, Syria and Venezuela—against the motion.

By 2006, it was beginning to dawn on the USA that “its lack of actual contact with Iran meant that it would forever remain ‘outside the room.’”<sup>35</sup> But, speaking face to face with Iran was a big decision for Washington, given the long period of bitter hostility between the two. Nevertheless, the USA expressed its readiness to engage directly with Iran provided it suspended its uranium enrichment programme prior to the talks. This was rejected by President Ahmedinejad. In fact, it was unfortunate that the USA came around to this position at a time when Iran was in the grip of the hardliners, who were in no mood to acquiesce to US conditions. Having built their political legitimacy on the basis of an anti-Western stance, the Ahmedinejad-led government was almost compelled by its own positions and rhetoric to rebuff all offers of dialogue.

In another attempt to break the stalemate, in June 2006, Germany offered Iran a package of economic incentives and civil nuclear technology transfer in exchange for an assurance for a permanent surrender of its uranium enrichment programme. Iran again rejected the offer, insisting on its right to master the entire fuel cycle as available to it under Article IV of the NPT. In fact, Iran indulged in a fair amount of nuclear boasting in April 2006 when Muhammad Saeedi, the deputy head of the AEOL, proclaimed that his country was getting ready to put in place 54,000 centrifuges, and President Ahmedinejad

proudly announced indigenous success in enriching uranium to 3.5 per cent.<sup>36</sup> The claims were dismissed by Western experts as political posturing for a domestic audience. It was estimated that a capability to install so many centrifuges was well beyond Iranian reach until at least 2020.

Throughout 2006, the USA lobbied with other major states for the imposition of sanctions on the country. This led to the first set of sanctions under UNSCR in December 2006. UNSCR 1737 banned all supply, sale, or transfer of items, materials or technology that might contribute to Iran's enrichment related, reprocessing, or heavy water related activities, and called for travel sanctions against certain Iranian officials. UNSCR 1747 further tightened these in March 2007. More followed in 2008 and 2010. However, Iran appeared undeterred. It claimed to have produced 1010 kg of LEU between 2007 and 2009.<sup>37</sup>

The inauguration of the Presidency of Barack Obama offered an opportunity for the USA to initiate a fresh start towards Iran. Changing track from the position of the previous administration, in April 2009 President Obama announced that the USA would join the P5 plus 1 negotiations as a full participant, and he dropped the condition that Iran should first cease enrichment. By this time, Iran too was due for its national elections. There was a general sense that under President Ahmedinejad, the country's economy had only worsened and its international isolation had increased. However, surprisingly and amidst allegations of a rigged election, Ahmedinejad and other hardliners won another term in office, thereby putting the US offer of détente to a serious test. Things came to a head in September 2009 when, in a surprise revelation, Iran announced to the IAEA that it had been secretly building a pilot fuel enrichment plant at Fordow, near Qom. Started in 2007, it was justified as being driven by the eventuality of a military strike on Natanz. Many saw the revelation and its timing as a political message to showcase the country's steadfastness on retaining its right to uranium enrichment. Meanwhile, the USA

tried all measures to stall Iranian enrichment efforts. Amongst these was the malware attack on Natanz in June-July 2009. The Stuxnet is believed to have gotten to Natanz through equipment procured from Siemens, Germany. The virus caused malfunctioning of the control system of the centrifuges, alternately speeding and slowing them, thereby making them self-destruct. Nevertheless, once the Iranians realized this, it only seemed to strengthen their resolve on enrichment. Through the years that Ahmedinejad was President, no success through negotiations was achieved.

A turn of events finally came about with the election of Hassan Rouhani, a moderate leader, as President in June 2013. Not new to nuclear negotiations (having been instrumental in facilitating the Tehran agreement a decade earlier), he gave an indication that Iran could be ready to change its stance when he spoke at the UN General Assembly in September 2013. On 24 November 2013, Iran and EU-3 +3 signed an agreement, the Joint Plan of Action (JPOA), which was described as an interim arrangement. Hailed across nations as a “ground breaking deal” with a potential for future conflict resolution, the final goal of the JPOA was set as the conclusion of a comprehensive agreement (that eventually materialized as the JCPOA) which would ensure the exclusively peaceful nature of Iran’s nuclear programme by building in enough transparency measures to enable the lifting of sanctions, and the eventual closure of UNSC files. Under the JPOA, Iran agreed to halt construction of a heavy water reactor at Arak, and discontinue its plans for a reprocessing facility. It also allowed the IAEA to visit sites where centrifuges were being made, and agreed not to deploy any new centrifuges for six months. It also halted the production of 20 per cent enriched uranium and disposed off its stock of UF<sub>6</sub> enriched to 20 per cent by converting it into oxide form needed for fuel assemblies. In exchange, Iran was promised “proportionate, limited sanctions relief”, which included oil sales, release of sales revenue held abroad, the suspension of sanctions on Iran’s petrochemical exports, auto industry, metals and licensing spares for civil flight safety.

The JPOA set the date of 20 July 2014 for reaching a more comprehensive final solution. If it still proved elusive, there was a provision for extending the deadline. This did become necessary. In fact, EU-3 + 3 met several times with Iran between November 2013 and November 2015 when a final JCPOA could be thrashed out twenty months after the JPOA. But that a JCPOA could be negotiated at all was because all parties stayed invested in the process despite the talks proving to be tough.

It goes to the credit of President Rouhani that, throughout the period of negotiations, he remained steadfastly focused and did not get distracted by domestic criticism, or other counter offers. For instance, Russia in 2014—keen as it was to improve its relations with Iran and to undermine the possibility of a new balance of power in the Middle East through a possible US-Iran partnership—tried to provide Tehran with alternative proposals. This included an oil-for-goods exchange that would have allowed Iran to sell 500,000 barrels per day of crude oil to Russia in exchange for agricultural products and civilian machinery. This could have scuttled the sanctions being imposed by USA and the EU. Russia even offered to build two new 1000 MW reactors in Iran.

However, Tehran did not succumb to Russian advances. Though it made full use of the US-Russia rift, it nevertheless realized that it was only the USA that could affect a lasting resolution of the issue. Finally, it was the USA that on 2 April 2015 laid out the parameters of the JCPOA which were to become the basis for the final text.

## **Contours of the JCPOA**

### *Placing limits on uranium enrichment*

Iran's fascination for an indigenous uranium enrichment capability was evident in the 1980s. The expressed justification for this was the need to fuel the TRR, once American support for it was withdrawn after the Revolution. By then, the TRR had been converted to using

LEU of about 19 per cent. Immediately after the USA ceased the supply of fuel, Iran contracted a deal with Argentina for the same. But this was a short term arrangement, and Iran was keen to become self-sufficient for future requirements. It may be recalled that, by this time, it had revived its ambitious nuclear plans. But, the need for indigenous enrichment capability for only the TRR made little sense given that, in the late 1980s, Iran did not have even one functioning nuclear reactor. Construction work at the Bushehr had been suspended in early 1980s, and its ever coming into commercial operation appeared uncertain.

Therefore, at the time that the Iranian leadership began exhibiting a desire for developing national mastery over uranium enrichment, the country really had no technical requirement for such a capability based on its extant or even any near term projected nuclear programme. As pointed out by an analyst, this was the time when “war was draining Iran’s financial resources, and spending millions of dollars on nuclear fuel for reactors that did not exist was financially unsound and totally illogical.”<sup>38</sup> What was troublesome, however, was the potential military application of this technology. Obviously then, as the international community learnt about Iran’s clandestine efforts in this direction, a naturally direct link was assumed with a desire for nuclear weapons.

In the years to come, Iran’s uranium enrichment activities became central to its nuclear programme—even more than commercial nuclear reactors. Meanwhile, for the outside world, this aspect of the programme was precisely the problem. Most nuclear watchers in the West conceded that Iran had the right to peaceful use of nuclear energy as a NNWS under the NPT. But what riled all was its insistence on the right to have an enrichment programme even when there appeared to be no apparent need for the country to do so—except if it had nuclear weapons ambitions. Therefore, as Iran went on rejecting all offers, suspicions of its malafide intentions grew. The USA remained as rigid even though by 2006, Russia and the IAEA were in favour of allowing some small scale enrichment activity as a face saving measure to Iran.

Germany also seemed inclined towards the idea; but France, the UK and the USA rejected it.

It took a long time—nearly a decade and a half—for the international community to understand that Iran’s insistence on having enrichment capability was driven by a sense of defiance. The more the international community opposed it, the more Tehran’s position became entrenched. Caught in a hostile relation with the USA—which it perceived as being at the forefront of wanting to wrest it of its nuclear rights—Iran became so committed to acquiring this that it got linked with its sense of identity as a sovereign state.

Accordingly, Iran took several steps to safeguard its right, including going as far as to build a secret facility at Fordow (in an underground mountain complex) to handle any possibility of an attack at Natanz. At the time of revealing the existence of this facility to the IAEA in September 2009, Iran’s Ambassador to the IAEA stated, “Enrichment in Iran will not be stopped or suspended at any price. It has not been done by sanctions or resolutions; it won’t be done by force.”<sup>39</sup> While the Western world was not impressed by the size of the facility or its potential capacity, perhaps the point that was missed was that Iran was not so much trying to showcase the facility as exhibiting the idea that it would not be deterred from giving up the right to enrichment.

By September 2011, Iran had amassed 4,543 kg of LEU and 70.8kg of 20 per cent enriched LEU. Bushehr too began generating electricity in the same month—that is, 37 years after construction had begun in 1974. As an analyst concludes, “Never had Tehran been more isolated, but it seemed content,”<sup>40</sup> even though the UNSC had imposed 6 resolutions on Iran between 2006–2010: 1696 (adopted in 2006); 1737 (in 2007); 1747 (in 2007); 1803 (in 2008); 1835 (in 2008); and 1929 (in 2010). In 2011, more unilateral sanctions imposed by the USA and the EU kicked in. And yet, even as these were taking a toll on the country, strangely enough, it appeared as if there was a sense of

contentment amongst the leadership, and a sort of vindication of its nuclear achievements.

Perhaps it is this that made Iran more open to the idea of negotiations again. It is now known that secret US-Iran bilateral talks had begun in July 2012.<sup>41</sup> Around this time, the EU too had come around to the position that Iran could be allowed to enrich to low levels, far below the capability of 20 per cent that it had demonstrated. But it demanded the surrender of its existing stockpile of LEU. In exchange, it offered to lift peripheral sanctions, such as on aircraft parts. This offer was not acceptable to Iran. Attempts at finding a way out continued, till the election of Hassan Rouhani as President opened a window of opportunity. He engaged in back channel communication with the USA, including through an exchange of letters with President Obama. More publicly, he indicated a constructive posture at the UNGA in September 2013. The USA too consented to let Iran have enrichment capability 'consistent with practical needs'.

Looking back at the negotiations, it is clear that a better understanding of what the enrichment capability meant for Iran and its sense of sovereignty is what ultimately facilitated an acceptable arrangement in form of the JCPOA. From what has been decided as per the deal, Iran has agreed to:

- Reduce its installed centrifuges from the 19,000 installed at the time of the agreement to about two thirds that number. Only 5060 of these IR-1s (first generation centrifuges) currently installed at Natanz would be used for enriching uranium for 10 years.
- Not enrich uranium over 3.67 per cent for at least 15 yrs.
- Reduce the current stockpile of 10,000 kg of LEU to 300 kg of 3.67 per cent LEU for 15 years. The amount of LEU in excess of 300 kg is either to be diluted to the natural uranium level or exported to another state in exchange for natural

uranium. This arrangement has been worked out with Russia and Kazakhstan.

- Place all excess centrifuges and enrichment infrastructure, including the 1000 IR-2M in an IAEA monitored and controlled storage site, to be used only as replacements for operating centrifuges and equipment
- Not to build any new enrichment facilities for 15 years, and not use its IR-2, 4, 5, 6 or 8 models to produce enriched uranium.
- Convert the underground Fordow centrifuge plant into a research facility or laboratory, thereby halting the production of LEU for at least 15 years. 1044 IR-1 centrifuges of the total 2700 at Fordow would be retained. These would be reoriented towards stable isotope production as part of the Russian-Iranian cooperation. Iran would not conduct any R & D associated with enrichment by the laser isotope method for 10 years, a technology it is known to have dabbled in earlier.

Undertaking the necessary steps towards the implementation of its commitments, on 28 Dec 2015, Iran shipped LEU enriched to 20 per cent in excess of the 300 kg it can keep to Russia.<sup>42</sup> In exchange for this, it is to get natural uranium from Kazakhstan paid for by Norway for now, and which will be repaid by Iran over time as commercial arrangements for this are finalized.<sup>43</sup> Iran is also dismantling thousands of enrichment centrifuges from its nuclear facilities. With these developments, the possibility of Iran getting to nuclear weapons through use of enriched uranium has been blocked.

### *Plutonium production and reprocessing*

A second pathway to nuclear weapons involves plutonium. Iran clandestinely began building the Arak reactor as a 40 MW heavy

water moderated research reactor. Given its potential for producing plutonium, this was a matter of concern. In order to address the issue, the EU-3+3 proposed a modification of its design to make it run with LEU. This was agreed to in principle by Iran in July 2014. It was also mooted that Iran should agree to a no-reprocessing policy and export spent fuel from this reactor for long term storage abroad—akin to what it had agreed to in case of Bushehr.

The JCPOA finally got Iran to agree to:

- Redesign and rebuild a heavy water RR in Arak, based on a design agreed to by EU plus 3. This would be for nuclear research and radioisotope production and not produce plutonium. The restructured reactor would run on 3.67 per cent enriched uranium instead of natural uranium, thereby reducing the amount of plutonium produced.
- Original core of the reactor (which could have enabled production of weapons grade Pu) would be destroyed or removed from the country.
- Transportation of all spent fuel from reactor to outside the country for the reactor's lifetime.
- Not conduct reprocessing or R & D on spent nuclear fuel
- Not accumulate heavy water in excess of needs of the modified Arak; nor sell it on the international market.
- Not build any additional heavy water reactors for 15 years.

All these steps are meant to remove the risk of Iran being able to develop plutonium based weapons.

### *The Nature of Inspections*

The JCPOA provides for a well devised monitoring system by the IAEA using modern technologies (such as electronic seals and online enrichment measurements) to ensure compliance of all commitments.

Described as an “extraordinary and robust monitoring, verification and inspections mechanism”, it would allow inspectors access to every element of Iran’s nuclear related activities from uranium mines and mills to the other nuclear facilities. Even more importantly, the deal establishes processes for the IAEA to monitor the entire supply chain for Iran’s nuclear programme. This would be enabled through setting up a “dedicated procurement channel for Iran’s nuclear programme established to monitor and approve, on a case by case basis, the supply, sale, or transfer to Iran of certain nuclear related and dual use materials and technology”.<sup>44</sup> This channel has been provisioned for in the new UNSCR 2231 that endorses the JCPOA, and urges its full implementation. Iran has also agreed to implement the Additional Protocol. In any case, it was provisionally following it from December 2003-February 2006. It stopped doing so after its referral to the UNSC.

Subsequently, in fact, in the wake of UNSCR 1747 of 2007 that expanded the sanctions, Iran had even informed the IAEA that it was quitting implementing a modified code of the safeguards agreement that every NPT member is required to follow as mandated by Article 39 of the Comprehensive Safeguards Agreement. This referred to Code 3.1 that deals with the early provision of information to the IAEA on a decision taken by an NPT member to construct a new nuclear facility or undertake a nuclear related activity. The Code was revised in 1992 to make it contingent upon member states to inform the IAEA as soon as the decision to construct a nuclear facility is undertaken, instead of the earlier provision when a state was required to inform the IAEA only six months prior to the introduction of nuclear material. Iran had signed the Safeguards Agreement in February 1976, and was following the revised Code from 2003. But, in 2007, it decided to go back to the earlier requirement.

The JCPOA now requires Iran to follow the revised code, and the country has been allowed 8 years to ratify the AP. Evidently, the new set

of provisions marks a major shift from the earlier position when Iran had refused to provide access to IAEA to visit any site, or interview any person. Iran had then described this demand as an “intimidating infringement on its sovereignty.”<sup>45</sup>

However, under the JCPOA, Iran has agreed to allow—if the IAEA so requests—access to locations that have not been declared. In such cases, IAEA would provide Iran with reasons for access in writing, and make available relevant information. In case there is a disagreement on an issue, there is a provision for consultations with members of a Joint Commission comprising the P-5 plus 1 appointed political directors headed by the EU foreign policy chief. It remains to be seen whether this mechanism would ever be required, and if it would work well in practice.

Iran has agreed to all of this in return for sanctions relief. According to the JCPOA, the USA and the EU, nuclear related sanctions would be *suspended* (they could snap back into place in case of Iran’s non-conformance with the provisions of the agreement) after the IAEA has verified that Iran has taken all of its key nuclear related steps. A dispute resolution mechanism has been specified for each side to raise issues related to the fulfilment of commitments. The idea behind all this is to allow Iran to re-join the global economy by facilitating access to international trade, technology, and finance.

## **Implications for Non-proliferation**

The resolution of the contention over Iran’s nuclear programme has become a sort of a test case for non-proliferation. The rights and obligations of NPT member states have become the main points of discussion. The USA and Iran have put forth different interpretations of Article IV of the NPT. While the USA holds that the NPT does not give an automatic right to uranium enrichment, Iran has argued that the NPT does not prohibit enrichment. As per international law, when

something is not specifically prohibited, it means that it is permitted. Iran was able to use its membership in groups such as the Non-aligned Movement (NAM) to mobilize the opinion of NNWS in its favour by playing upon the sense of discrimination between the developing and the developed countries. The denial of ENR to NNWS, and placing it as the new gold standard for receiving cooperation on peaceful nuclear programmes was touted by Iran as dividing the world into those that could be trusted, and those not. Iran sought to win over other developing countries by pitching its insistence on nuclear rights as a battle it was fighting on behalf of all modernizing countries, and a means of getting over technological apartheid.

However, while Iran did enjoy some sort of a tacit support for its rights under the NPT, what went against it was the issue of its intentions. The fact that it kept its activities clandestine—and even indulged in obtaining technology from the nuclear black market—put a cloud on its claim to be fighting the case for all.

## **Conclusion**

The journey to the JCPOA as well as the agreement itself, provide several interesting insights. For one, while there are many technical dimensions of the JCPOA, in the ultimate analysis, it is essentially a political solution to a political problem. The Iran nuclear crisis only exacerbated an already 'failed relationship' between Iran and the West.<sup>46</sup> The moment Washington and Tehran began talking to each other directly, a resolution became possible. The second important aspect of the JCPOA is that it addresses not just the technological dimension of the Iranian nuclear programme with suspected military overtones, but also the political, economic, security and psychological aspects of the issue. Thirdly, what made the agreement possible was a broad based consensus amongst the major powers to achieve a peaceful solution. US support to EU efforts changed the character of negotiations, and the steadfastness of the six nations made multilateralism an effective

diplomatic tool. It provides greater assurance to the interested parties that the agreement could not be withdrawn suddenly by any single government. Fourthly, the involvement of the IAEA in the implementation of the deal on objective principles is also a reason for success. The IAEA seems to have learnt its lessons with the Iraq episode, and appears today to be less amenable to political manipulation. It may be recalled that, in 2003, when Iran was offering cooperation to IAEA, “the Agency’s technical and diplomatic efforts to complete the mapping of Iran’s nuclear program were overwhelmed by the politics of the matter.”<sup>47</sup> Yukiya Amano, however, has taken pains to highlight that the reports of the IAEA are strictly restricted to the technical aspects of a problem, which is the Agency’s core expertise, rather than going into political dimensions.

Overall then, the JCPOA marks the creation of a constructive framework in which the interests of many major powers are involved. It has pushed back the break out time for Iran, and many of the prohibitions and implementation commitments are looking at a timeline of 10-15 years. This duration would be best utilized if Iran and the USA can overcome their mistrust and hostility, and slowly develop confidence in each other. However, it remains to be seen whether the USA and Iran will ultimately use it as a tactical arrangement for narrow immediate gains (such as stopping proliferation for the USA and gaining sanctions relief for Iran) or whether they can use it as a strategic game changer, with long term implications.

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## Chapter 3

# *India-Iran Relations 2005-2015*

### **Brief Historical Review**

It is true that Indo-Iran relations date well back into history. India's first Prime Minister, Jawaharlal Nehru, rightly described this bilateral relationship as between people "closely related in origin and throughout history". Several decades later, Prime Minister Narendra Modi too invoked history during his recent visit to Iran in May 2016. Identifying Iran as part of India's extended neighbourhood, he described it as "an important country in the region and one of India's valuable partners. We are connected with each other by the shared history and civilizational ties."<sup>48</sup>

Indeed, India and Iran like to describe themselves as old friends, given that Persia and Mughal India had close relations. But, in the post-Independence period, New Delhi became more inclined towards the Arab states, and distanced from Iran through the 1950s–70s when the Shah was closer to the USA. During this period, India did not enjoy the best of relations with Washington. Rather, non-alignment kept it away from not just the major powers but their regional allies too. In any case, Iran's hobnobbing with Pakistan as part of CENTO, and its support for Pakistan in the 1965 and 1971 wars did little to draw the two countries closer. On the contrary, India found better political support in Iraq (Iran's enemy through the 1980s) and in other Arab nations. Of these, eventually, Saudi Arabia and UAE emerged as India's major oil suppliers, and home to many Indian migrants contributing significantly to India's economy through remittances.

Post the Iranian Revolution in 1979, India recognized the new government, maintaining that the political development was the country's internal matter. For about a year after the revolution (1979–1980), Iran did have a relatively liberal government led by Mehdi Bazargan who even got Iran to join the NAM. As important regional powers, India and Iran became the champions of the Third World countries. India nevertheless opted to “maintain a safe distance”<sup>49</sup>, as it was wary of the brand of religious extremism that the Revolution seemed to be premised upon. The possibility of the export of the Revolution became a cause of concern after Bazargan's fall and, as Iran gave an open call for the support of Islamic movements around the world. Considering that the Indian population comprises of Shia and Sunni Muslims, India was not comfortable with philosophies that emphasised religious cleavages, thereby threatening the Indian foundation of secularism. India's close ties with Iraq, with which Iran was engaged in a war through the 1980s, was also obviously an impediment.

However, several developments at the end of the Cold War opened new opportunities for India and Iran to reconsider their relationship. The breakup of the USSR removed one of India's major supporter nations, compelling it to search for other friends in its extended neighbourhood. Secondly, the early 1990s was also the period when India embarked on economic reforms and modernization. As the economy grew, the need for energy surged, and the importance of energy rich Iran began to be realised. This was also particularly so since India's relations with Iraq had soured as a result of its invasion, occupation, and annexation of Kuwait. Widespread condemnation of Saddam Hussein's aggressive policies led to his political isolation, and India also complied with the economic sanctions imposed on Iraq. With the disruption in energy supplies and the rupture of its political relationship with Iraq, Iran appeared as a significant alternative on India's horizon.

Meanwhile Iran too, after a long war with Iraq, was looking for countries that could support the rebuilding of its war ravaged

infrastructure, as well as provide a political comfort zone. Therefore, the search of New Delhi and Tehran for partners in their economic growth and development as also for political support converged. Further, as members of NAM and fellow Third World countries, Iran and India found common cause on many issues. Both also became constituents of regional groupings, such as the Indian Ocean Rim nations, G-15, etc. As aptly put forward by an analyst, “Iran was looking for a non-Western partner in Asia; India was looking for a non-Saddam ally in the Middle East”.<sup>50</sup> It was natural that both were drawn to one another.

Yet another common concern that brought them closer at this juncture was the state of Afghanistan as it emerged after the withdrawal of the Soviets. The rise and possible export of religious extremism by the Taliban—who were fast gaining in influence and reach—was perceived as an unwelcome development by both. By this time, Iran too had become far more moderate in its religious beliefs. Having consolidated itself through the period of the Iran-Iraq war when it had used the Revolution to garner domestic approval and Muslim support globally, the Iranian regime felt more secure and confident. Consequently, it began seeking gradual normalization of relations with Saudi Arabia and Europe. This reorientation of Iran’s foreign policy appealed to India.

The Iranian offer of “Dialogue of Civilizations” in order to counter the clash of civilizations thesis (seemingly gaining ground in the 1990s) was another point of bilateral convergence. Extremely conscious of its religious diversity, which actually is the premise of the idea of India, New Delhi was uncomfortable with the clash of civilizations’ theory. Thus, Iran’s call for the dialogue of civilizations met with India’s approval and support. Moreover, Pakistan’s policy in Afghanistan and its support for the Taliban, as also anti-Shia violence within Pakistan, had led to a falling apart of the two nations. This proved beneficial for India since it found in Iran a voice that could provide an effective counterweight to the Pakistan-led Muslim voice in Organisation of Islamic Conference (OIC). This was important

since Pakistan had ratcheted up its support for the militancy in Kashmir in the early 1990s. Its attempt to corner India at the OIC through Pakistan's active campaigning with the Islamic countries was countered by India through Iran.

In the late 1990s, Indian Prime Minister Narasimha Rao and Iranian President Rafsanjani did take certain constructive steps towards building a cooperative relationship. Subsequently, Prime Minister Vajpayee took this forward in 2001 when he made a visit to Iran. The Tehran Declaration signed at the time was hailed as the "launch of a new phase of constructive and mutually beneficial cooperation". President Khatami returned the visit in January 2003 when he was also the Chief Guest at India's Republic Day function. On this occasion, the Delhi Declaration and the Roadmap to Strategic Cooperation were signed. The Indian Prime Minister described Khatami's visit as indicating the "consolidation, expansion and diversification of our bilateral relations".<sup>51</sup> The Delhi Declaration focused on economic exchanges, science and technology cooperation, educational training, and also military relations. It made a reference to Indo-Iran joint naval exercises, sea lane control and security, the setting up of a joint working team on counter-terrorism and counter-narcotics.

As is evident then, relations with Iran began to blossom only after the end of the Cold War. During the decade of the 1990s till mid-2000, energy emerged as a major plank of this relationship. The share of Iranian oil imports grew steadily from 5.7 per cent in 1996-97 to 6.2 per cent in 1999-2000 to 8 per cent in 2006.<sup>52</sup> Several other aspects were also highlighted in joint official statements and explored for bilateral cooperation, with a tentative start being made on some of them. But, besides oil imports, little bilateral trade of significance could emerge in the 2000s.<sup>53</sup> In fact, a turn of events (discussed below) soon after the high profile official visits hampered the true blossoming of the relationship.

## **The Indian Position on the Iranian Nuclear Issue**

Two developments took place in 2005 that were to have a significant impact on India-Iran relations. The first of these was the Indo-US joint statement of July 2005. Made during a historic visit of then Indian Prime Minister Manmohan Singh to Washington, it marked a tectonic shift in India-US relations. Years of mistrust and recriminations were sought to be consigned to history with the promise of a new broad-based relationship, which included India's accommodation into the nuclear non-proliferation regime. Having been an outlier ever since the NPT came into force in 1970, and having suffered technology denials from groups such as the Nuclear Suppliers Group and the Missile Technology Control Regime, this was a big deal for India. Obviously, it was keen to be on the right side of the USA, since Washington was seen to be the only capital that had enough clout and reach to effectuate such a change in the system.

However, emerging Indo-US relations were always expected to cast a shadow on some of India's relations with other countries that themselves did not enjoy a good relationship with Washington. Iran was one of them. In fact, the Iranian nuclear issue had been simmering through the early 2000s (see Chapter 1). India had been watching from the side lines, and advising Iran to live by its NPT commitments that it had wilfully accepted in 1970 on its ratification of the treaty. In fact, it must be pointed out that there were, during this period, a number of writings by Indian scholars that displayed a sympathetic attitude towards the Iranian situation. For instance, arguing from the Iranian perspective, one analyst concluded that

it would make perfect sense to try to get nuclear weapons: Gaddafi gave up the bomb, and Saddam Hussein didn't have one; they were toppled. The North Koreans and Pakistanis (and Israelis and Indians) have the bomb and receive all sorts of concessions...<sup>54</sup>

The Indian government, nevertheless, maintained a principled stand against nuclear proliferation, and the need of every country to

comply with its treaty obligations. The disclosure of Iran having been a customer of Pakistan's nuclear proliferation network caused further discomfort in India.

The second development impacting Indo-Iran relations took place in September 2005 when the IAEA declared Iran as non-compliant with its treaty obligations pursuant to a vote of the Board of Governors in which 22 of the 35 voted in favour of referring the Iranian nuclear issue to the UNSC. India too voted in favour of the resolution. This vote was described by the Indian media as a betrayal of Iran.<sup>55</sup> The action was immediately linked to the emerging Indo-US relations. The Left parties were critical of the vote. They found greater fodder when Iran reacted by cancelling the LNG deal struck between the two countries earlier in 2005, stating that "our economic and political relations are coordinated with each other."<sup>56</sup>

Caught in a bind, Indian officials took pains to point out that India had actually worked within the IAEA to ensure that the USA, France, Germany, and Britain did not 'ride roughshod over Iranian interests' by getting them to amend the 2005 Resolution, which had called for an immediate referral to the UNSC.<sup>57</sup> In his explanation on the Indian vote, the MEA spokesperson emphasized New Delhi's efforts at stopping the Resolution from declaring Iran "as non-compliant with its safeguards agreement", and insisting that the outstanding issues be resolved under the aegis of the IAEA. It could be said that, by emphasizing negotiations for a "fair and reasonable understanding" with Iran, India played the role of a friend. As also pointed out by the Indian strategic analyst C. Uday Bhaskar, "The Indian vote in Vienna was not a vote against Iran but one that was consistent with the principles that India has supported—namely against nuclear proliferation—and about the need to maintain the sanctity of international treaties and regimes".<sup>58</sup>

However, despite the vote, little headway was made in the EU-3 negotiations with Iran. Rather, with the election of President

Ahmedinejad, the country's position hardened, and provocative actions—such as the resumption of enrichment activities which had been suspended for a while—were undertaken. In view of these developments, the matter was again tabled in February 2006 to refer the Iran issue to the UNSC. Another moment of truth had arrived for India. It voted along with 27 other nations (including Russia and China this time) in favour of the resolution. In response to the criticism of the Indian action from within the country by the opposition parties, the Prime Minister made a *suo motu* statement in Parliament in February 2006, defending the action on the grounds of opposing “proliferation activities in our extended neighbourhood.”<sup>59</sup> The fact that the Prime Minister chose to make his government's stand clear on the floor of the Parliament goes to show that India was keen to keep its relations with both the USA and Iran as separate as possible from one another. While it was inevitable that linkages would be drawn to Indian ‘compulsions’ owing to its growing closeness to the USA, Indian officials used every opportunity to point out that India had been trying to help Iran from within the IAEA. Even in the case of the 2006 referral, it had

enabled the tabling of a resolution that recognizes the right of Iran to peaceful uses of nuclear energy for its development, consistent with its international commitments and obligations, while keeping the door open for further dialogue aimed at resolving the outstanding issues within the purview of the IAEA.<sup>60</sup>

Attempts to keep the relations with Iran independent of other developments was evident in the many steps taken by the Indian government during this period. Irrespective of the deteriorating relations between Presidents Ahmedinejad and Bush in the wake of the US conduct of a war game in the Persian Gulf, Foreign Minister Pranab Mukherjee nevertheless visited Tehran in February 2007. In the same year, India received the Iranian Naval Chief, as well as an Iranian Naval cadet training ship, besides having several Iranian defence officers participate in joint training courses in India. India also supported Iran's

observer status membership into SAARC in 2007. Subsequently, in April 2008, President Ahmedinejad visited India. Interestingly, at this time, he dismissed the impact of the vote on Indo-Iran relations by stating that these were “deeper than a vote”, and that the two countries were “ready to strengthen wide-ranging aspects to give a new direction” to the relations.<sup>61</sup>

However, nothing substantial could emerge from the visits since new revelations in 2009 about Iran’s secret nuclear activities brought its intentions again into question. Yet again, India sided with the IAEA on “Iran’s failure to notify the Agency of the existence of this facility until Sept 2009... [which] was inconsistent with its obligations under the Subsidiary Arrangements to its Safeguards Agreement...”<sup>62</sup> At every such vote, India was forced to walk a tightrope. While on the one hand, it could not but stay with the majority international community on the issue, but on the other hand, it did not wish to alienate its relations with Iran either, considering the increasing amounts of oil it was importing from there. In its explanation on the vote, India sought to protect Iran by insisting that this vote could not be the “basis of a renewed punitive approach or new sanctions”. Perhaps, Iran also understood India’s position. And, certainly, it wanted to keep at least some nations on its side. Therefore, despite the vote, Iran’s Foreign Minister Mottaki continued with his planned visit to India in November 2009 to hold bilateral discussions on energy security, economic cooperation, and counter-terrorism.

However, little could be expected to fructify on these fronts, given the tightening sanctions on Iran with the series of UNSCRs that slowly expanded their scope. These ranged from starting out by imposing an embargo to prevent proliferation of sensitive material related to nuclear and ballistic missiles, the ban on the import or export of arms and related materials as also the freezing of assets of designated persons and entities, to moving towards a ban on the import of Iranian crude oil.

India always made it clear that it would accept only those sanctions that arose from the UNSC resolutions, and not those being unilaterally imposed by the USA or the EU. Nevertheless, UN sanctions imposing a ban on the import of oil from Iran did impact the country adversely. India (as also China, Japan, and South Korea) became major victims of this ban, since nearly 85 per cent of Iranian oil was anyway being exported to these countries.<sup>63</sup> The USA had not been importing any oil from Iran, and even EU imports had been of an order of not more than 20 per cent. But India—a major importer of crude oil, the world's fourth largest oil consumer, importing nearly 66 per cent of its requirements, of which 11 per cent were coming from Iran—was impacted.<sup>64</sup> Moreover, several Indian refineries—such as those at Jamnagar and Mangalore that were linked to the typical crudes coming from Iran—found themselves in a difficult position. The imposition of sanctions made it difficult to continue these imports, owing to payment, insurance, and shipping issues. In 2012, India and Iran agreed that 45 per cent of the oil import bill of India would be paid against Indian rupees, which could be used for financing increased Indian exports to Iran such as pharmaceuticals and other goods.<sup>65</sup> Despite finding a way out for the payments, Indian imports were nevertheless affected by international insurance agencies not covering shipping risks. As a result, between 2011 and 2012, Iranian oil imports fell. Iran slipped from being the third largest exporter of crude to India to sixth position in July 2012.

### **India's Tightrope Walk with the USA and Iran**

Much has been made of the fact that India's drawing closer to the USA post-2005 had an adverse impact on Indo-Iran relations. Indeed, the desire of India to seek its nuclear mainstreaming through a strategic partnership with the USA did mean tightrope walking on its relations with Iran. US demands and concerns on Iran had to be accommodated. As put by K. C. Singh, a former Indian diplomat, "The Indian votes at

the IAEA in 2005, 2006 and 2009, which led to first censuring of Iran and then its referral to the UNSC, was the price the US extracted for the India-US civil nuclear deal.”<sup>66</sup> When voicing their views on the Indo-US nuclear cooperation agreement, several US Congressmen did treat India’s position on Iran as a test of its ‘loyalty’ to the USA. The USA considered the Indian position on Iran as significant not only because it was building a strategic partnership with India but also because, as US Undersecretary of State Nicholas Burns opined, it marked “a blow to Iran’s attempt to turn this debate into a developed world versus a developing world debate.”<sup>67</sup> Indian support for American led sanctions and censure, just as Russian and Chinese support, were showcased to Iran as a case of unity of the international community.

On its part, despite standing with other nations against Iran and mounting US-Iran tensions, India continued with its strategic engagement with the country in terms of pre-planned visits and exercises. The second Indo-Iran naval exercise went ahead as planned in March 2006, although this coincided with the visit of President Bush to India. The significance of this should not be minimized, given that this was a very important visit for India. This was the time when the Indo-US Joint Statement of July 2005 was just about laying the foundation of the fledgling relationship from which India had much hope. Continuing its relations with Iran carried the risk of jeopardizing the new start with the USA. Indeed, US Congressmen pressed upon the Bush administration to compel India to sever its military engagement with Iran as a precondition to its nuclear cooperation. The Iran-Libya Sanctions Act was constantly mentioned by American officials visiting India to highlight the fact that any investment in Iran’s energy infrastructure could run afoul of the legislation, thereby impacting Indo-US relations. In 2009, 41 Indian oil firms were threatened with sanctions for having energy ties with Iran. These included the ONGC and the IOC. Indian insistence on supporting none other than the UN imposed sanctions, and hence continuing to import oil from Iran was

interpreted by many non-proliferation hawks in the USA as a “slap on USA’s face”. An editorial in the *Wall Street Journal* of February 2012 described India as the “Iranian Mullah’s last best friend.”<sup>68</sup>

However, India argued against this description of itself and against its being liable for sanctions because its consortium (comprising OVL-IOC-OIL which had the exploration rights in Farsi and South Pars blocks) had not invested more than US\$ 20 million in any one year, which was the ceiling as per US law. Of course, in deference to the sanctions on oil, India did reduce its crude oil imports from Iran from 16 per cent in 2008–09 to 10 per cent in 2012.

Gradually, the USA accepted that India would not be cowed down into toeing its line on Iran, however much it wanted its relations with the USA to grow. President Bush signed the Indo-US deal into law on 18 Dec 2006. His team mates (such as Secretary of State Condoleezza Rice) justified this despite India’s continued relations with Iran on the grounds that the nuclear deal with the USA would help India in “meeting its rising energy needs without increasing its reliance on unstable foreign sources of oil and gas such as nearby Iran”.<sup>69</sup> In other words, the USA argued in favour of making international nuclear commerce accessible to India as one way of undercutting its energy compulsion to engage with Iran. It is for this reason that the USA was uncomfortable with the idea of the Iran-Pakistan-India pipeline—because of the fear that such energy dependency on Iran could make India more accommodative of Tehran.

In the overall analysis, it goes to the credit of Indian diplomacy that it managed to keep the two bilateral boxes apart, and explain its position to both its interlocutors who were bitter rivals themselves. Iranian oil, American goodwill, and a principled stand on non-proliferation were all equally important for India. Striking a balance between these required deft diplomacy to explain India’s viewpoint and strategic compulsions to both sides. In this regard, India’s history as a

non-aligned nation that always kept its national interest over binding alignments did come in useful. Having a strategic partnership with both sides with no alliance encumbrances allowed India to express its difference in opinion without sabotaging either relationship. This also, perhaps, earned India the respect of both as it displayed restraint: that is, not going overboard with either. Keeping its national interest steadfastly in sight, India managed to navigate tough times when Iran and the USA were both important to it even as they themselves were going through the worst phase in their bilateral relationship.

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## Chapter 4

# *Opportunities and Challenges in Indo-Iran Relations*

Despite a deep rooted sense of cultural-civilizational affinity, India-Iran relations have not been able to live up to their true potential. At different points in time, they did seem to come closer for a while, or at least pronounce joint statements that encapsulated the promise of a relationship. But then, domestic, regional, or international circumstances intervened to keep them apart. The conclusion of the JCPOA heralds a new dawn of another opportune juncture for the two to pursue the relationship that has been interrupted several times before. The lifting of sanctions on Iran has opened possibilities in cooperation across varied sectors, such as agriculture, banking, oil, petrochemicals, natural gas, and port sectors, to name a few. However, India will have to be proactive in its diplomacy with the country, and quick in delivering results in order to garner goodwill. As it is, India would be competing with many other countries that are also making a beeline for Tehran. Will India be able to leverage its past historic linkages, and connect them meaningfully with the current convergence of interests?

Fortunately, positive signs in this direction are already evident in the visits of some high profile Indian officials to Tehran in the last year since the conclusion of the JCPOA. India's Foreign Minister, Sushma Swaraj, and Minister of Petroleum and Natural Gas, Dharmendra Pradhan, were amongst the first from the country to travel to Tehran for setting the stage for Prime Minister Modi's visit in May 2016. While

in Tehran, the Prime Minister himself struck all the right notes, with a vision of '*dosti*' premised on a dozen bilateral agreements. These range from the expected oil and gas deals and the development of Chabahar port to the more soft power oriented Memoranda of Understanding that traverse cultural exchanges and better institutional linkages between think tanks on either side.<sup>70</sup>

While the mood appears upbeat on both sides and the agreements are well-intentioned, how the future of the relationship actually pans out remains to be seen. Will this time be different? Many known unknowns as well as unknown unknowns could impact the new start. Some are already arguing that India left it too late to pick up its engagement with Iran, considering that Chinese Premier Xi Jinping visited Iran in January 2016 itself. Other country heads from South Korea to South Africa too have already touched Tehran in the last five months of 2016—that is, before the Indian Prime Minister undertook his visit, which was 15 years after the last time any Indian leader paid a state visit to Iran. However, irrespective of those who have already been to Iran, India has laid claim to its special relationship with the country, and highlighted the many areas of cooperation and convergence of interests in the MoUs that have been signed. It is just as well that the country has stepped in after the initial flurry of euphoric visits is over, and at a time when Iran has itself arrived at a better and more realistic understanding of its own needs from foreign partners.

It is in light of these developments that this concluding chapter makes a realistic assessment of the opportunities that are today available for Indo-Iran relations. It also flags the challenges that will need to be pragmatically handled if the rich potential of the bilateral relations is to be sustainably harvested.

## **The Opportunities: A Rich Menu**

### *Energy Partnership*

India's economic liberalization in the early 1990s coincided with the loss of Iraq as a major exporter of oil to India, and the discovery of Iran as a substitute. Bestowed with fourth largest oil reserves and second largest gas reserves, Iran steadily grew in its importance for India's energy requirements. The Delhi Declaration signed in 2003 (on the occasion of visit of President Khatami) underlined this congruence of interests in the energy sector. It stated, "Iran with its abundant energy resources and India with its growing energy needs as a rapidly developing economy are natural partners."<sup>71</sup> Within a decade of this Declaration, Iran had become India's second largest oil supplier. India was importing nearly 21 million tons of oil annually from the country.<sup>72</sup>

India had also begun searching for a secure and stable arrangement for the transfer of gas as well as broadening its cooperation by attempting to go beyond a mere buyer-seller relationship by exploiting investment opportunities in upstream and downstream projects. India's GAIL and Iran's NIGEC (subsidiary of the National Iranian Oil Company) had signed a US\$ 22 billion deal in the mid-2000s that entailed the supply of LNG to India for 25 years starting 2009. In order to make this possible, GAIL had committed to construct an LNG plant in Iran. However, these investments were affected by Iran's growing isolation over the nuclear issue. Caught in the middle, coming good on many investment promises proved to be difficult, especially where the use of American components in plants to be constructed in Iran was required.

That the US put pressure on Indian companies against investing in the Iranian energy infrastructure was clear when Essar Oil, the biggest Indian buyer of Iranian oil, had to withdraw from a project to build a refinery in Bandar Abbas because of the threat to its major steel deal

in Minnesota.<sup>73</sup> Similarly, Reliance Industries terminated its gasoline exports to Iran to avoid possible restrictions of sale on its products in the USA. It was also fearful of having to face the suspension of extension of US\$ 900 million worth of financial guarantees to RIL for its refinery expansion plans.<sup>74</sup> As Indian companies were constrained by sanctions to fulfil their commitments, Iran expressed its unhappiness by revising upwards the price for LNG several times from what was agreed to in 2005. Tehran also cut down the stakes it had offered to the ONGC-Hinduja consortium in South Pars from 60 per cent to 40 per cent.

Whatever might have been the hurdles and grudges of the past, the JCPOA has again brought India the opportunity to use Iran's hydrocarbons for its own economic growth and development. This is particularly important since India's energy resource basket at home is somewhat limited. At present, the bulk of India's existing power generation capacity is from coal. India has reasonable coal reserves, which according to British Petroleum estimates, comprise 8 per cent of the world total. The country is the fourth largest producer of coal and lignite in the world (after the USA, China, and Australia).<sup>75</sup> However, India's coal reserves are of low quality (with high ash content and low calorific value) as also are concentrated in some parts of the country. This necessitates the haulage of coal over long distances which not only raises costs but also ties down the transportation network. In any case, reliance on imported coal has steadily grown over the last decade.

Oil and gas are used at a very small level in the electricity production sector in India; and yet the country imports 189 million tons of crude oil annually.<sup>76</sup> In any case, the country is deficient in domestic reserves of both. These are sourced from outside through elaborate and long distance transportation networks of pipelines and LNG shipments. The scope for use of natural gas for thermal power production is immense, if India could be assured of reliable supplies. Gas based power generation could certainly increase from the current 10 per cent

contribution it makes into India's energy basket. It is in this context that Iran's role as an energy partner not just as a seller to a buyer is of immense significance to India.

In fact, ideally India could partner in the development of Iran's energy infrastructure. There is no doubt that Iran is in need of assistance in this field since the sector suffered heavily under sanctions. The development of the South Pars field remains an open area, and Indian investment in this sector could be a win-win for both sides. The resumption of the deals such as the one where ONGC Videsh Limited had invested US\$ 90 million in exploration at the Farzad B gas field in the Persian Gulf between 2008–2012 could go a long way in being another mutually beneficial situation for both countries. Of course, India will have to face competition from Western players as Iran opens the bidding process for the oil and gas fields. But the country could play up its strengths in this field and the economic advantage in the core petroleum sector as well as engage in proactive diplomacy to make a dent.

The surge in oil exports have brought the biggest and most immediate benefits to Iran after the lifting of sanctions. Oil revenue has increased by 90 per cent. By April 2016, Iran was exporting 1.7 million barrels per day—up from less than 1 mbpd during the period of sanctions. Besides some countries in Europe (such as Greece, France and Spain), the Indian market would be the biggest customer of Iranian oil. On 25 April 2016, it was reported that RIL bought crude oil from Iran after a gap of six years.<sup>77</sup> Before the sanctions made it stop these imports, Reliance was importing as much as 5 million tons a year from Iran for its refining complex in Gujarat, which is the largest such facility in the world. RIL would also be resuming its exports of petrol and diesel to Iran. HPCL is in talks to get 2 million tons per annum of crude oil. Indian interest in Iranian hydrocarbons should be well matched by the lucrative and huge Indian energy market that could

bring good dividends for the Iranian economy. As oil prices begin to rise, the bonanza for Iran would be economically and politically valuable. India should be able to establish a foothold in the country on the basis of this traditional energy relationship.

Meanwhile, also worth exploring is Indian help for the development of Iran's renewable energy sector. As the Iranian economy begins to pick up, the electricity demand in the country will rise too. If Iran is to be weaned off the use of fossil fuels in deference to global carbon emission concerns, then India can be a partner for Iran in increasing its generation of renewable electricity. As it stands, India currently produces nearly 22 per cent of its total electricity generation from water. India is also already the fourth largest producer of wind electricity, which contributes 6 per cent to the total installed capacity. Meanwhile, research and development in solar electricity continues to improve its commercial viability as a large scale and reliable electricity source, even as storage technologies mature. Owing to sustained research and development, there has been exponential growth in these sectors. Costs have come down even as capacity factors have increased.

Indian expertise and experience in these fields could be of help to an emerging Iran. With 100,000 MW of potential installed capacity, Iran's wind power potential is huge. Iran's topography places it along the wind corridors—including the Atlantic, Mediterranean, and Indian Ocean currents—its northwest and northeast experience high winds all the year around.<sup>78</sup> Iran's central and southern regions also get as much as 300 days of sun every year. Therefore, scope for non-conventional energy development in Iran is significant. It currently produces only 200 MW from wind and solar. But, the country's Renewable Energy Organisation of Iran (SUNA) has set itself a target of 5000 MW by 2020. It is introducing schemes such as the one under which the government is offering 20 year guarantee to buy renewable electricity.<sup>79</sup> Iranian companies will be looking for partners, providing an opportunity for India. For now, Suzlon (India's largest wind energy

company) has expressed interest in setting up plants in Iran or in supplying equipment. Such ventures could move India out of a purely transactional oil and gas buyer relationship to partnering with Iran on renewables. More studies could establish the feasibility of these ideas.

### *Economic Cooperation and Trade*

Bilateral trade between India and Iran was a meagre US\$ 16 million in 2011–2012. Of this too, the major portion has comprised of Indian imports of crude oil and some exports of petroleum products. The potential for increased trade in sectors of agriculture, pharmaceuticals, medical equipment, aeronautics, etc. has long been identified, but never realized. In 2013, when the Indian Foreign Minister visited Iran, the two countries expressed a desire to increase bilateral trade to US\$ 25 million over the next four years. However, the trade, in fact, reduced to US\$ 13 million in 2014–2015 as a result of international sanctions on Iran.

The JCPOA has opened new opportunities for Indian economic investment and engagement in a range of sectors. Given the isolation of Iran through the last decade, there is lack of information amongst the business communities on both sides of mutual capabilities and capacities. Now that Iran is opening up, there is scope for the exchange of information through the visits of businessmen, participation in exhibitions, etc. to showcase products for trade, and even co-development. Barely a week after the deal was signed in July 2015, a CII delegation visited Tehran to seek business opportunities. ASSOCHAM has also set up an office there. A range of studies by business houses have suggested electronics, IT, automobiles (especially small cars and motorcycles), urban water management and hydrological studies, biotechnology, education and training, and infrastructure as areas for increased trade and engagement.

Moreover, an expected construction boom in Iran's infrastructure development could benefit Indian construction and heavy engineering

companies. As a goodwill gesture, India has already provided the rails to Iran for the revamping and expansion of its railway network. Only 5 per cent of the funds required for purchase have been paid by Iran, with India bearing the cost of 95 per cent of the rails.<sup>80</sup>

While Iran has the luxury now of many nations wooing it, the practical reality is that many are still finding their way around the public warning issued by the US government about dealing with Iranian banks, especially those entities that are related to the IRGC. In any case,

major European banks that have been subject to billions in US fines for poor enforcement of sanctions and regulations concerning anti-money laundering and combating the financing of terrorism ... have therefore adopted a 'de-risking' strategy predicated on leaving markets where they judge the risk of violating rules—inadvertently or not—is too high to be worth the limited returns.<sup>81</sup>

Since the ban on dollar transactions still remains, it is not easy for companies to access finance for business in Iran.

This situation offers India the opportunity to help the Iranian banking system which is out of step with international banking practices, operations, and regulations. Foreign banks are wary of working with Iranian ones that lack efficient compliance departments given that strict anti- money laundering and counter terrorist financing (AML/CTF) rules are today in place across the world. According to a London based consultancy, Iranian banks suffer from “unsophisticated management controls and IT systems, accounting and auditing practices that are inconsistent and lax at recognizing non-performing loans.”<sup>82</sup> And, all companies wanting to do business with them, are expected to carry out due diligence at their end so as not to be linked to any individuals or entities that have been designated as involved in prohibited activities.

Indian help to the Iranian financial system could go a long way in not only earning the country's goodwill (given that a lot of economic

benefits that were expected to accrue to the country immediately on the lifting of sanctions have not been flowing in because of the overly cautious attitude of investors to engage with Iran's banking system) but also clear the way for Indian private and public companies to safely engage with Iran (given that the same fears haunt them too, lest they get penalized for inadvertent actions). It is reported that the Iranian Parliament (Majlis) has enacted the necessary legislation to enforce the AML/CFT practices; but implementing them through the creation of relevant rules and regulations, and their outreach to entities is a significant challenge. India could offer assistance to help Iran improve its banking and financial practices.

### *Access to Afghanistan and Central Asia*

Afghanistan and Central Asia have historically been India's neighbours. But, with the creation of Pakistan, India's direct access to Afghanistan and further on to Central Asia was blocked. Meanwhile, Pakistan has virtually claimed Afghanistan as its 'strategic depth', and tried to minimize Indian reach and influence into the state. The situation had become especially worrisome for India with the rise of the Taliban, supported and abetted by Pakistan. Iran too shares concerns over this. Evinced a common regional threat in the capture of Kabul by the Taliban in 1996 and sharing an interest in resurrecting the Northern Alliance, the two countries have found scope for a strategic engagement—though neither could become a player in the regional security architecture since Pakistan sensitivities kept India out and misgivings on the Iranian nuclear programme and its suspected support for terrorism could not brook the US to engage Iran. So, it continued to lean on Pakistan despite its duplicity and game playing with Kabul.

However, the JCPOA has changed the situation. The USA is willing to mainstream Iran politically, and also realizes the role that the country could play in assisting the economic and political situation in Afghanistan. Iran's relatively good relations with Afghanistan

provide India with an opportunity to have access to the country. India has already made an economic investment in the reconstruction of Afghan infrastructure. Amongst some of the bigger projects that India has successfully completed in the country are the construction of the highway to Iran, the Parliament, and the reconstruction of the Salma dam for irrigation and electricity. The recently signed trilateral transport and transit corridor agreement will provide further such opportunities, and India is keen to deepen this engagement. Reaching the country through a route that can bypass Pakistan would give a significant fillip to its trade and economic cooperation with the country.

With a view to realizing this objective, during the recent visit of Prime Minister Modi to Iran, the three countries signed a trilateral pact to build the Chabahar port as a hub for Indian access to Afghanistan. The Trilateral Transport and Transit Corridor will connect Chabahar with the Afghan road and rail network. India has pledged to invest US\$ 500 million in the development of the port in Iran. Meanwhile, it has already helped Afghanistan build its transportation network that will link up with Iran. This corridor will then allow Indian trade to access Afghanistan. In fact, through Afghanistan, India will also gain access to Central Asia—another region that India has been trying to build connectivity with for better economic and political cooperation. However, before we look at the aspect of Iran's facilitation of connectivity to Central Asia, it would be pertinent to understand the import of the Chabahar port.

### *The Centrality of Chabahar for Facilitating Indian Connectivity*

Central to the connectivity that Iran can offer to India is the development of the Chabahar port on the Makran coast of Iran. The idea for India to join Iran for the development of this port had first been explored in January 2003, during the visit of then Iranian President, Mohammed Khatami. Acknowledging the importance of a

transportation corridor that could link India in the south with Central Asia in the north through Iran in the middle was then encapsulated in an MoU on the Road Map to Strategic Cooperation, which was signed between Iran and India during his visit. The two countries resolved to “develop the full potential of the North South arrangement, its infrastructure, desired certification and customs harmonization.” This corridor envisaged linking Mumbai with Chabahar and Bandar Abbas, and then having a rail and road network that would connect these ports to places in Afghanistan and Central Asia. The idea was for India to invest in the massive infrastructure requirements of the project through “cost effective intellectual and material assistance in the development of information technology networks, ports, roads, and rail projects.”<sup>83</sup>

While India was interested in this project, no real progress took place, and the idea remained on paper. The political isolation of Iran and the imposition of sanctions did not allow for any substantive progress to take place. Also, as C. Raja Mohan writes, “The UPA leadership could not muster the necessary political will to direct different ministries and agencies to work in unison to pursue declared strategic objectives towards Iran.”<sup>84</sup> In 2013, as the JPOA was signed raising the hope of a solution to the Iranian nuclear issue, India committed US\$ 100 million for the development of the port. On 2 Mar 2015, the Minister of State for External Affairs, General V. K. Singh stated in Parliament that India had finalized a contract, and approved credit of US\$ 150 million to Iran. Soon thereafter, the Union Road Transport, Highways and Shipping Minister, Nitin Gadkari, visited Iran in May 2015 where he inked an MoU committing India to the development of the port. That this promise may finally take off now looks possible, with the agreement being signed during the recent visit of Prime Minister Modi.

Going by the extensive media coverage of the agreement on the development of the port, Chabahar became the centre piece of the Prime Minister’s May visit to Iran. One editorial described the agreement

as marking “a new level in India’s overseas ambitions, establishing a genuinely strategic presence not just in one of the world’s great energy markets, but potentially giving Indian business access to some of the fastest-growing economies of the future.”<sup>85</sup> Indeed, it is with an eye on the commercial benefits of this initiative—providing market access to not just Iran, Afghanistan and Central Asia but also up to Russia and Europe—that India has pledged to invest US\$ 500 million to develop the port. To be undertaken through a joint venture of Kandla port and Jawaharlal Nehru Port Trust, it will be outfitted with two state of the art terminals with five berths: a container terminal and a multi-purpose cargo terminal. Currently, Chabahar port is handling only 2 million tons worth of cargo annually. However, with its upgradation to modern shipping standards, this is estimated to go to 80 million tons by 2020. The port also has the potential to provide the starting point for a 1300 km long pipeline sitting in the deep bed of Arabian Sea to provide gas to Porbandar in Gujarat.

Apart from its commercial importance, Chabahar also has a strategic significance. Its geographical location—just about a 100 km from the Gwadar port of Pakistan in which China has invested heavily—provides India with a platform from where to keep a watch on this nexus that has been a major security concern for the country. It is also believed that the port agreement as well as the trilateral trade and transit pact will,

“put in place geo-economic, political and military relationships that will pull India out of the narrow straitjacket of South Asia, and make it a role-player in the security and stability of its extended neighbourhood.”<sup>86</sup>

If all goes according to plan, goods from the Chabahar port would be able to travel by rail and road to the Iranian border with Afghanistan. Prime Minister Modi described this as “an assured, effective and more friendly route”<sup>87</sup> for Afghanistan to trade with the rest of the world. India has already invested US\$ 100 million in 2009 to bring the road network from within Afghanistan (from the city of Delaram) to the border town of Zaranj. This 218 km stretch is, in fact, an offshoot

of the 2200 km long main ring road highway (Garland Road) in Afghanistan, which links Mazar-e-Sharif from the north to Kabul, to Kandahar, to Delaram, and to Herat. This circular road network also potentially could connect with Uzbekistan and Tajikistan.

### **Onwards to Central Asia**

According to estimates made by Indian public and private entities, the investment potential of Chabahar is as much as US\$ 22 billion in the chemicals, petrochemicals, and steel and fertilizer sectors, besides railways.<sup>88</sup> Moreover, connectivity to Central Asia would enable India and Iran—jointly or separately or through a coordinated strategy—to undertake projects in oil, gas, minerals, telecommunications, human resource development, with focus on specialized education and vocational training, public health, banking and insurance, agro based industries, textiles and manufacturing, leather, pharmaceuticals, and confectionaries. Given the good technical and engineering experience in the construction sector in both Iran and India, there is scope for the construction of roads, rails, irrigation networks, etc. as well as urban construction in CARs.

Central Asia is a land-locked region. For its access to the outside world, the most economically and politically feasible route is through the port, road and rail network of Iran.

CAR's linking with international waters through Iran is, and will continue to be, for the near future an economically more viable and reliable option than would the routes through the Black Sea, the Russian territory or the prospective route through Afghanistan and Pakistan.<sup>89</sup>

Though this was written in 1997, not much has changed in terms of increasing the attractiveness of the other routes over those offered by Iran.

India's participation in joint projects with Iran in Central Asia could be a win-win for all. It may be recalled that India, Iran, and Turkmenistan had signed an MoU in 1997 envisaging the movement

of goods from Indian ports to Bandar Abbas in Iran, and from there overland to Turkmenistan. Kazakhstan too has shown interest in joining this.

However, all of this will be possible only if, amongst other factors, India can pull its act together to actually deliver on its commitment. At the domestic level, this would mean getting all ministries on the same page on the project. For instance, it has happened in the past, that the Ministry of Finance had slowed down plans for the development of Chabahar port by insisting on an assured return on the investment, remaining oblivious to the larger strategic import of the project.

India has taken a major initiative by stepping out to proactively find for itself a route that can allow it to tap markets in its extended neighbourhood *without* remaining a prisoner of the geography that Pakistan has long sought to exploit. Many other players are already out to help Afghanistan gain access to the outside. China's One Belt One Road initiative, linked to the China-Pakistan Economic Corridor, has already been joined by Afghanistan. The USA is supporting the New Silk Road Initiative that would link Afghanistan to Central Asia. Obviously, Kabul is keen on all, as it currently views itself as the "Asian roundabout."<sup>90</sup> But, there is no doubt that India enjoys substantial goodwill with Afghanistan owing to its assistance on many developmental projects that have actually helped the man in the street even as other players have been playing politics with the country's security. Showing real commitment to the recently signed agreements would further enhance India's position.

It must also be mentioned that India need not pitch its investments at Chabahar as being in competition with any of the other initiatives. What is required is a quiet commitment to operationalize the port within the committed time frame. Efficient delivery of promises would go a long way in raising confidence of the regional states in India, and have spin off effects in many other domains too.

### *Military Cooperation*

One of the bilateral agreements signed during Prime Minister Modi's visit to Iran includes cooperation on defence and maritime security. Some of this has already been an area of cooperation. Naval cooperation between the two goes back to mid-1990s when "the Indian Navy helped the Iranian Navy to adapt four Russian built Kilo-class submarines for warm water conditions in the Persian Gulf."<sup>91</sup> Iranian naval engineers as well as missile boat crews have trained in Mumbai and Vishakhapatnam. With India having increased its own understanding of maritime issues and capabilities, there is scope for intensifying these relations through reciprocal port calls and joint exercises. Two Indo-Iran naval exercises were conducted in March 2003 and March 2006. The growing isolation of Iran thereafter did not allow for more such actions. But joint naval exercises would give both sides a chance to explore the possibilities of dealing with scenarios of piracy, terrorism, interdiction, etc. One such exercise took place on 28 May 2016 east of Hormuz Strait in which two Indian warships participated. Given that the Straits of Hormuz, just outside Chabahar, is amongst the busiest sea lanes in the world, with a large chunk of India's own oil passing through it, building deeper linkages with the Iranian Navy would be in India's interest. It is noteworthy that the Indian Regional Navigation Satellite System is now in place with seven satellites. This has important implications for increasing the Indian Navy's maritime domain awareness over an area of 1500 km from its coasts. Iran falls within this ambit, and using this capability to enhance the nature of the exercises is certainly a possibility worth exploring. Of course, the IRNSS will also eventually provide an alternative to US GPS to countries in the Middle East.

Apart from naval cooperation, India has the potential to help Iran in the modernization of its defence forces. This could include mid-life service maintenance and upgrades for MiG-29 fighters, as also help in the retrofitting of warships and submarines in Indian dockyards. R&D

assistance in defence research, defence infrastructure development, the implementation of modern IT applications at Armed Forces, training for UN Peacekeeping operations are all feasible propositions. With India now contemplating defence exports, the sale of ALH and jet trainers, radars for air defence are some ideas that have potential.

### *Common Stakes in Regional Security*

India and Iran co-habit a turbulent region flanking Pakistan which has been, and still continues to be, the hub of terrorist activity and thus the cause of instability. Traditionally, both have been excluded from participating in fora looking to find regional security solutions. However, the situation has now changed—at least for Iran after the JCPOA. Sharing as it does a long, common border with Afghanistan, Iran is an important player. The USA is hopeful of the constructive role of Iran in stabilizing the situation in Afghanistan through help towards building infrastructure and the joint sharing of information regarding the Taliban. In Iraq too, the rise of the ISIS from 2014 onwards, and Iran's help by sending its militia to Iraq to assist the regime to safeguard its oil fields has shown up the importance of Iran as a force that could resist the menace of the IS that none yet knows how to handle. The same applies to Syria also where Saudi Arabian support to anti-Assad forces has led to the strengthening of the ISIS. Meanwhile, India can play its part through the kind of developmental work that it has long been engaged in with Afghanistan.

India and Iran have signed an agreement to cooperate on intelligence sharing to combat terrorism, drug trafficking, and cyber crime. President Rouhani made it clear that “due to the importance of stability and security in the region, especially in countries like Afghanistan, Iraq, Syria and Yemen, a big problem called terrorism is running rife and rampant in the region.”<sup>92</sup> Indeed, stability in the region is critical for the benefits of cooperation and connectivity to yield fruit. Otherwise, as pointed out by a former ambassador, “none

of the visions of connectivity and cooperation will have much value if West Asia remains locked in conflict.”<sup>94</sup>

## **The Challenges: The Need to Tread with Caution**

Many developments have the potential to sabotage the reinvigoration of India-Iran relations in the wake of the JCPOA. The following paragraphs identify three of the major issues that subsume many minor aspects, each of which could nevertheless, put a spanner in the wheels of bilateral engagement.

### *Interruption in Implementation of JCPOA*

The lifting of sanctions on Iran is premised on the continued implementation of the agreement under which Iran is obliged to take a number of steps. The first of these have been taken on the export of excess heavy water and LEU as well as the conversion of the Arak heavy water reactor into an LWR. IAEA inspections are proceeding as planned. However, many of these commitments are to continue over a decade and a half. This is a long period, and it will witness a change of leaders in both countries. Political change could raise questions on the future of the JCPOA given that there is no dearth of critics and opponents of the deal in both the USA and Iran.

In the USA, for instance, a victory of the Republicans (the majority of whom are opposed to the deal and rue the concessions that have been granted to Iran) could put the fate of the deal in jeopardy. Of course, none of this can be said with any certainty since rhetoric during an election campaign can be quite different from the actual stands taken when in government. But going by the statements of many Republican leaders, they have indicated that they would like to re-negotiate the deal, if in power.

However, a re-opening of negotiations could actually end up killing the deal since President Rouhani’s move for manoeuvre—always

small—would only grow smaller in such an eventuality. As it is, the quick economic gains that the public was expecting after the lifting of sanctions—which realistically could never have been that quick—is slowly leading to impatience and disenchantment. This sentiment could then be utilized by the naysayers of the deal (particularly the hardliners in the IRGC) to fan greater nationalism that would once again bring back the older days of hostility. “The delay in the economic benefits accruing to Iran, even after it has kept its commitments on the nuclear agreement, has reopened the fault lines between reformists and hardliners.”<sup>95</sup> Moreover, there are multiple power centres in Iran: the Supreme Leader, clerics, IRGC, moderate political leaders. The influence exerted by each keeps varying, making for a difficult decision making structure. And, any jettisoning of the deal by the USA could lead to yesterday once again.

Such an eventuality would certainly put India’s engagement with Iran under a cloud once again. Any action by the USA to either ratchet up international sanctions on the country or undertake military strikes would put paid to the nascent agreements that the two have signed. Of course, it will not be that easy for the USA to swing into any of these modes. The EU, Russia and China can be expected to stay the American hand. And the deeper their investments in Iran, the greater are going to be the stakes for them, as well as for Iran to steer clear of such actions. India could help by using its engagement with Iran and the USA to make both realize the benefits of engagement for all.

### *Sway of Chinese Influence on Iran*

During the long period of negotiations to resolve the nuclear issue, Iran depended heavily on Russian and Chinese support. They helped it bear the economic sanctions imposed by the USA and the EU, and even shielded it against international diplomatic pressures. Through 2005–2015, China maintained that negotiations were the only route

to the resolution of the problem. It even shielded Iran against sanctions in the early 2000s. For instance, in September 2004, the Chinese Ambassador to IAEA “issued an unprecedented statement that it would use its veto power in the UNSC if the Iranian nuclear issue is forwarded.”<sup>96</sup> While calling for restraint on sanctions, China also counselled Iran to positively address the concerns of the international community, and respond constructively to the packages that the EU was proposing. After being formally incorporated, along with Russia, into the negotiating group of nations with Iran in Sept 2007, China consistently urged the six countries to ‘enhance diplomatic efforts and manage the issue with flexibility and creativity in a bid to seek comprehensive, long term and proper methods to solve the issue.’<sup>97</sup> While China and Russia voted against Iran in 2009 and 2010, China’s implementation of the UNSCRs was tardy given its wide ranging economic, energy and military cooperation with Iran. As a result of its relatively benign relations with Iran through its difficult days, China does enjoy greater access into the country. China has marked Iran for its Silk Road strategy that will enhance trade, manufacturing, and business opportunities for all along the route.

President Xi Jinping was among the early visitors to Iran, and both countries have signed a 25-year strategic plan based on 17 agreements, including one on port development. In fact, China had also offered to invest in the development of Chabahar port. A Chinese consortium visited Chabahar free trade zone in April 2016, and expressed interest in developing the port and building an industrial town there. But, considering that Iran agreed to partner the port development with India rather than China indicates its own proclivities. There is no doubt that India scores over China in terms of the reach of its soft power with Iran. Despite its vote against Iran at the IAEA, India’s record of helping the country by tempering the language of the resolutions or continuing with the broader political engagement—even if it had to be devoid of economic content for a while—remains clear and evident. Thus, the

comfort level between the two countries as also the personal chemistry of the present leadership provides a foundation on which to build a deeper and more meaningful relationship.

As India grows in economic strength and international influence, Iran will further want to be friends with it in order to have powerful and reliable nation on its side. Despite its changed relations with the USA (India's strategic partner today), New Delhi has shown the spine to stand up to the USA in WTO and in climate change talks etc. This ability to maintain independence in its foreign policy is sure to be valued by Iran.

### *Imbalance in Relations with the Three Pillars of the Middle East*

Saudi Arabia, Iran, and Israel are the three major pillar states of the Middle East. Over the last two decades, India has adopted a policy that seeks to establish good relations with each of them in as balanced a manner as possible. This, however, has never been easy and, in fact, never more difficult than today, given the less than comfortable relations amongst the three countries themselves. India cannot afford to skew its policy towards any one player in the region at the cost of the other. In fact, India has a deep stake in stability in the region, and must strive to facilitate it to the extent that it can through its individual relations with the players.

Cutting its oil supplies from Iran in deference to the progressively stricter international sanctions placed on the country from 2006 onwards made India increase its reliance on Saudi Arabia and the UAE. Thus, it was not surprising that Prime Minister Modi paid a visit to UAE in August 2015, and then to Saudi Arabia in April 2016. After his visit to Tehran in May 2016, he also plans a trip to Israel later this year. These visits are evidence of the need for India to individually engage with these countries owing to specific national interests.

Saudi Arabia, for instance, is currently India's largest supplier of crude oil, and foreign remittances from 3 million Indians (out of a total of 11 million in the region) make a significant contribution to India's GDP. The visit of former Prime Minister Manmohan Singh to Riyadh in 2014 also enhanced cooperation in the security and defence sectors, including intelligence sharing on terrorism. The more recent visit has taken these forward. Meanwhile, Saudi Arabia also needs India more and more from the economic point of view as its oil exports to the USA have declined, and China too is facing a relative economic slowdown. India is one of the most promising developing economies today, and this reality is not lost on the astute Saudi monarchy.

As India looks to pick up its relations with Iran, tensions between Iran, a Shia theocracy, and Saudi Arabia, a Sunni monarchy, become a matter of concern. Having a mix of Shia and Sunni populations within the country, India is wary of a larger rift in the Middle East.

Moreover, the US deal with Iran also did not go down too well with Saudi Arabia. Its fears of Iran's dominance in the region and its fight for Islamic credentials were immediately revived. It may be recalled that Saudi Arabia's flirtations with nuclear weapons have grabbed headlines every now and then. The June 1981 Israeli attack on Iraq's Osirak nuclear reactor led Saudi Arabia to think of an Islamic bomb in response to Israel. Its funding of Pakistan's nuclear programme in the 1980s is believed to have had an eye on an eventuality where it might need those weapons too. In March 1988, there were reports of Saudis receiving Chinese DF3 or CSS 2 medium range missiles, with a range of 3000 kms. Not very accurate missiles, these were seen to be of use only with WMD. According to one analyst, "The Chinese missiles were believed to be deployed at two sites from where they could fire at both Iran and Israel."<sup>98</sup> US expression of concerns led Saudi Arabia to sign the NPT in October 1988. However, a Saudi defector revealed his country's desire

for a nuclear weapon in 1994. He produced documents to support the contention that between 1985 and 1990, the Saudi government provided funding separately to both Iraq and Pakistan to produce nuclear weapons, and transfer some to Saudi Arabia.<sup>99</sup>

Saudi Arabia is not only fearful of the Shias but also of democracy that challenges its political model based on no elections, nor popular participation. The Arab Spring type of uprisings scare the monarchy, especially at a time when oil prices being low, they are unable to offer as many sops to keep the populace satisfied. For instance, in 2011, King Abdullah had responded to the Arab Spring by extending a US\$ 70 billion package for housing and healthcare. But, with a new King in power now after Abdullah's death in January 2015, and oil prices being at a third of what were being raked in in 2011, the monarchy is finding it difficult to offer such packages to their subjects. In such a situation, the use of the tool of religion to play up fears of its persecution is being resorted to. As put by one analyst, "Attacking Shias and confronting Iran are crowd-pleasers at home."<sup>100</sup> Both Iran and the Saudis have used proxies in the past to fight each other. "Each month, Iran shells out US\$ 1–2 billion to fight Saudi-backed rebels in Syria and Saudi Arabia spends US\$ 3–4 billion on battling Iranian-backed insurgents in Yemen."<sup>101</sup> This, however, is a dangerous game, with far reaching implications that spill over beyond the region.

In more recent times, tensions have escalated between the two on their divergent views on wars in Syria and Yemen. The Saudi execution of a dissident Shia cleric and activist, Nimr al-Nimr, drew severe criticism from Tehran. The backlash included an attack on the Saudi embassy in Tehran to which the Iranian foreign office offered no protection. Riyadh retaliated by severing its trade and air links with Iran, and also calling upon the GCC to do so. While there was no unanimous response from the Council, Bahrain did comply with the Saudi demand; UAE downgraded its relations; and Kuwait recalled its ambassador.

A further complication in the region is added by Israel. India normalized its relations with Tel Aviv in 1992. Military supplies, defence cooperation, engagement in defence research and development, science, space, and agriculture are only some of the sectors in which bilateral relations are thriving. Counter terrorism has also emerged as an important plank, and both set up a dialogue on the subject in 2000. This has served well for security agencies to share information, and training regarding how to keep track of terrorist activities in West Asia, including near crucial sea lanes.

However, given the less than comfortable relationship between Iran and Israel, India's relations with the latter complicate its efforts to engage with Iran. Israel describes Iran as a state that sponsors terrorism, and resents India's relations with Iran. Tehran, on the other hand, though largely publicly indifferent to India-Israel relations, has occasionally expressed unhappiness on specific issues—such as when India launched the Israeli satellite Polaris in January 2008 that Iran presumed was meant to snoop into its territory, and especially its nuclear programme.

India has tried to keep both relations largely independent and away from the zero sum game. But the shadow of one does impinge on the other in areas such as military cooperation. Iran has sought upgrades for its military hardware of Russian weapons platforms that India has operated for a long time. India, in turn, has used Israeli help in this regard, and Israel has often expressed fear of leakage of its technology to Iran.

Good relations between Iran and its Arab neighbours offer greater comfort to India since tensions amongst these adversely impact the many relations of energy, private businesses, and migrants that it enjoys with each. In any case, India must steer clear of areas that could draw it into any crossfire between the regional players. All are vital to India's security interests. While Israel helps in strengthening India's defence infrastructure and counter terrorism measures, Iran is crucial for energy

security, access to Central Asia and Afghanistan, and to the general security strategy against terrorism. “The more Iran engages globally, the more responsive to good neighbourly relations it is likely to be.”<sup>102</sup> And that would be in India’s interest.

## **Conclusion**

The opening of Iran provides potential for trade and business opportunities. But this does not necessarily mean that it would be easy. First of all, Iran is itself coming to grips with the changed reality, and will need the institutions, the mind-set, entrepreneurial skills, etc. to exploit the opening. Besides an opaque banking system, Iran also suffers from “corruption, an inflexible labour market, unattractive contract terms for energy investments, [and the] traditional dominance of the public sector.” All of these induce caution in the investor. Also, provocative domestic and regional behaviour could send them away. “Torching embassies, arresting tourists and dual-nationality businessmen, testing ballistic missiles—none of this provides a conducive context for Iran’s reintegration into the global economy.”<sup>103</sup>

Thus, the onus of constructively using the opportunity of engagement is as much on Iran as upon others. It is critical that the crucial time that has been won by the JCPOA should not be wasted. It would be best utilized to build trust, create mutual stakedoms, and resolve regional issues to make all the players more secure.

The international non-proliferation community would be well advised to try and find a way of establishing a Middle East WMD Free Zone next. This has been a long standing objective of the NPT. In fact the NPT RevCon 1995 had secured an unconditional and indefinite extension of the treaty on the promise of resolving the Middle East nuclear conundrum, particularly with reference to Israel’s undeclared but well known nuclear weapons. The Iranian nuclear issue would receive a more secure sense of resolution if Iran’s regional security issues

with Israel could be addressed through the elimination of all nuclear weapons from the region. The task will certainly not be easy. In fact, even a conference of the regional powers to discuss the issues under the aegis of the special authority appointed in the form of an ambassador from Finland in 2010 has not yet been possible. Nevertheless, work must be started on this next step after the JCPOA. India could make an indirect but valuable contribution to this by promoting steps at the international level that reduce the salience of nuclear weapons. As their value drops, so will the desire of nations to hang on to or acquire them. It will be a long journey. But the time is ripe to take the first steps.

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