

The American Sanctions on Iran and Implications for India: Part 3

Author: Rajesh Soami*

Date: 10 May 2019

Iran has threatened to close down the Strait of Hormuz. This is in response to the US decision to end waivers for eight major oil importing countries for buying oil from Iran, starting from 01 May 2019. Similar threats have emanated from Teheran in the past. However, the continuing US efforts to strangle the Iranian economy and the loss of credibility of the moderate faction in Iran increases the likelihood of the recent threats to be realised. It seems that Iran is now left with very few 'cards in its hand' and Hormuz is one of them.

The Strait of Hormuz is considered one of the most critical maritime chokepoints in the world. It connects the Persian Gulf to the Gulf of Oman. At its narrowest it is 33 km wide, but the width of its navigable channel is only three km. Around 17 million barrels of oil [passed](#) through the strait every day in 2018. This is anywhere between 20% to 30% of all crude shipped in the world, depending on global oil consumption. Over 300 million cubic metres of LNG (liquefied natural gas) also [passes](#) through the strait every day, which includes all of Qatar's LNG. It is to be noted here that Qatar is the largest LNG exporter in the world.

Apart from Iran, Saudi Arabia, the United Arab Emirates (UAE), Bahrain, Kuwait and Iraq, all use the Strait to export their oil. The economies of all these countries are highly dependent on the sale of petroleum extracted from their oil fields, which also lie close to the Strait and near the shores of the Persian Gulf. Any disruption or hindrance in shipping across the Strait of Hormuz will have cascading effects on the Gulf countries. Therefore, the oil importing countries will also be affected severely.

India is in a particularly vulnerable position as it imports 80% of its petroleum-based energy needs, largely from the Gulf. Its rapidly growing economy does not have many viable alternatives. Many other non-Gulf oil exporting countries are facing their own problems. Venezuela, like Iran, is under rigid American sanctions. Libya has not recovered from the civil

war, and continues to be politically unstable. The United States has emerged as the largest oil producing country in the world. However, its export potential remains limited because the development of export infrastructure in the form of pipelines, ports, etc., will take another couple of years to be fully developed.

Indian Minister for Petroleum and Natural gas, Dr Dharmendra Pradhan has stated that India has a “*robust plan*” to supply crude to its industries. “*There will be additional supplies from other major oil producing countries*”, he added. No details of such a plan have been divulged. One can only assume that India would try to increase its oil imports from Saudi Arabia and the United Arab Emirates (UAE). India’s relations with these states have markedly improved in the recent years. However, the downside of this plan is that all oil exporting countries are dependent on the Strait of Hormuz.

Saudi Arabia has invested in building pipelines to diversify its oil distribution system away from the Persian Gulf to the Red Sea. The East West pipeline, also known as *Petroline* starts from Abqaiq in the east to Yanbu on the Red Sea coast. However, the carrying capacity of this pipeline is insufficient to cater for all Saudi oil exports. Similarly, the UAE, too, has constructed the Abu Dhabi Crude Oil Pipeline (ADCOP) from Habshan in Abu Dhabi to Fujairah. Fujairah is the only emirate of the seven in the UAE, which has a coastline on the Gulf of Oman that bypasses the Strait of Hormuz. The ADCOP feeds into the petroleum export terminal at the newly constructed port of Fujairah. Again, however, this pipeline cannot carry all the oil that UAE presently exports. Saudi Arabia and the UAE have assured that they will increase the production of their own petroleum to make up for the Iranian oil that is expected to disappear from the market after 01 May. In such a scenario, the importance of the Strait of Hormuz will only increase, considering the limited capacities of the pipelines in the Gulf area.

It is estimated that the Indian economy is so heavily dependent on oil imports that the annual GDP growth of the country goes down by 0.1 per cent for every \$10 increase in the per-barrel price of oil. The Iranian threat to the Strait of Hormuz, therefore, presents a nightmarish scenario for India. Even a partial disruption of maritime traffic across the Strait will lead to skyrocketing of the price of oil. The earlier geopolitical instabilities and conflicts in the West Asian sub-region have had severe effects on the Indian economy. The first Gulf War of 1991 led to balance of payments crisis and forced Delhi to seek a financial bailout from the IMF.

Besides this import dependence, the Persian Gulf is also a major destination for Indian exports, including refined petroleum products. The UAE alone is the second largest export partner for

India. Other States such as Saudi Arabia, Qatar and Kuwait, also import Indian merchandise in substantial quantities. All this trade will be adversely affected if Iran makes good on its threat to close the Strait of Hormuz.

Therefore, it is vital for India to ensure that the maritime traffic in the Persian Gulf remains insulated from the geopolitical power-play involving the US and Iran. However, this is easier said than done. The American sanctions are acting as a screw, piling pressure on Iran slowly. The more the pressure increases, the more likely it is for Iran to give effect to its threat on Hormuz, since this may be its only option to change the behaviour of its adversaries. From the Iranian perspective, the Trump administration's demands are harsh and unrealistic. They call for an entire reversal of Iranian policies and its complete surrender on the West Asian chessboard. It is highly unlikely that even the most moderate of Iranians will accept such conditions in return for the removal of sanctions. In such a scenario, there seems to be little common ground between the two camps. India, having good relations with both the camps, must attempt to bring the two sides to a realistic 'meeting ground'.

At the same time, the Government of India must also have other options on the table in case such efforts fail. India must explore the option of obtaining oil from other regions of the world. It already imports a sizeable amount from Nigeria. Increasing this amount along with that from other oil producing countries such as Angola must be prioritised. Hopefully, the Government of India indeed has a viable plan to solve the 'Hormuz dilemma' that the current situation poses, as claimed by the Indian Petroleum Minister.

**Rajesh Soami is an Associate Fellow at National Maritime Foundation, New Delhi. The views expressed in the article are his own and do not reflect the position of the NMF. He can be reached at rajesh96_isg@jnu.ac.in*