

Partnership with the Persians

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Iran is in the news again. The Trump Administration has pulled out of the multilateral Iran nuclear deal, reimposed the sanctions and gone back to the pre-Obama era of hostility. The nuclear deal with Iran was never very popular among the conservative sections of Washington. And now, in the words of Steve Bannon, a former adviser to the US President, one of the objectives of the Administration's Middle East initiative is to “*roll back the Persians*,”¹ meaning again isolating the Iranians. However, from New Delhi's perspective, Iran is an important country. It is the closest oil-producing nation to an energy-dependent India and a key source of oil in times of fluctuating oil prices. It is the Indian gateway to Afghanistan and Central Asia. The Persians have been reliable with their oil supplies; along with Afghanistan, Iran had signed a trilateral agreement in May 2016 for the establishment of a trade and transit corridor using Chabahar as a regional hub, and had patiently waited for the completion of Chabahar port by India. Once fully developed, the port is expected to handle 20 Million Metric Tonnes (MMT) of trade annually, changing the trade and transit dynamics to Afghanistan and Central Asia. While the US may be ‘rolling back’, we need to partner with the Persians and build upon the recent India-Iran-Afghanistan trilateral agreements to negate Pakistan's regional leverages. For New Delhi, the road to Kabul goes through Chabahar.

Trading with Tehran

Once we make up our mind, the distance between Kaashi and Kaashan is only half a step.

— PM Narendra Modi in Tehran

Iran was the second largest oil exporter to India until 2011, rose to the first position in between, and now is the third largest exporter.² As the country holding the world's fourth largest oil and the second largest natural gas reserves, Iran complements India, currently the world's fourth largest consumer. The consulting firm McKinsey has predicted that by 2030, India will have a primary energy import dependence of 51 percent, compared to one and 20 percent for the US and China. India and Iran have common objectives and cultural links besides the mutually beneficial oil relationship. The association goes back to the support they together extended to Ahmad Shah Massoud who was leading the Northern Alliance. The two nations continue to collaborate in supporting the broad-based anti-Taliban government led by Ashraf Ghani. In May 2016, Prime Minister Modi was the first Indian Prime Minister to visit Iran in 15 years. The highlight of the visit was a historic three-nation deal, signed in the presence of Afghan President Ashraf Ghani and Iranian President Hassan Rouhani, to develop the Chabahar port and build a transport and trade corridor through Afghanistan that can potentially halve the time and cost of doing business with Europe.

The deal has the potential to convert Chabahar port into a regional hub for sea transportation in Iran, besides multi-modal transport of goods and passengers across the three nations. According to the deal, India will spend \$ 500 million to develop Chabahar as a regional trade hub. This will allow India to open up an alternative land-sea route for trade with Afghanistan. It not only allows New Delhi to bypass Pakistan and access Central Asia but also to counter China's expanding influence in the Indian Ocean region. Chabahar has already started paying dividends. In 2018, it played a key role in timely delivery of goods from India in the drought-hit areas of Afghanistan wherein 170,000 tonnes of wheat and 2,000 tonnes of pulses was swiftly transported. Until Chabahar came up, almost all goods bound for Afghanistan were being shipped through the Karachi port.

Importance of Chabahar

Chabahar lies in the Sistan-Balochistan province of Iran's southern coast, overlooking key shipping and oil trade routes. While the region holds two-

thirds of the world oil reserves, an estimated 17 billion barrels of crude oil passes through daily. Chabahar is located about 1,800 km south of Tehran, and is well served by rail freight routes and roads. Chabahar has the potential to connect with the land routes to Europe, bypassing the Suez route. It is 950 km from the Milak border crossing on the Afghan border and 768 nautical miles (nm) from Mumbai port. Chabahar enables both India and Iran to realise their ambition of reducing dependency on the Suez Canal. Chabahar also lies in the path of the proposed South Asia corridor, which passes through India and Mirjaveh in Iran, linking Southeast Asia with Europe.³ Iran is upgrading the Chabahar-Milak road and constructing a bridge on the route to Zaranj with Indian aid, to enable the existing Iranian road network to link up to Zaranj in Afghanistan. This shall connect to the 218-km Zaranj-Delaram road, constructed by India in 2009 at a cost of \$ 135 million. This gives India access to four major cities in Afghanistan—Herat, Kandahar, Kabul and Mazar-e-Sharif.⁴ The Chabahar-Milak-Zaranj-Delaram highway will open up the Indian market to Afghan farm products and other exports besides providing access to Azerbaijan, Turkmenistan and onwards to Kazakhstan.

Chabahar Port provides an alternate land route to Afghanistan and Europe and has the ability to monitor Pakistan's activities at Gwadar.

Once the routes are stabilised, there is a plan for the Indian Railway Construction Company (IRCON) International to build a railway line to transport goods inland from Chabahar, with a \$1.6 billion railway line to Zahedan, an Iranian city near the border of southwest Afghanistan. Chabahar is cost efficient as the port cuts transport costs and time for Indian goods by almost a third. The distance between Kandla port in Gujarat and Chabahar port is less than the distance between Delhi and Mumbai. With Chabahar port, India gets direct access to Iranian ports. The cost shall be further reduced once the Iranian ports are interconnected by railroad connections. Iran plans to use Chabahar for trans-shipment to Afghanistan and Central Asia, while keeping the port of Bandar Abbas as a hub for trade with Russia and Europe. As Chabahar lies only 76 nm (171 km) away from Gwadar, the ongoing Chinese or Pakistani military activities at Gwadar can also be monitored.

Mumbai to St Petersburg

Apart from Bandar Abbas port, Chabahar is a critical Iranian *entrepot* in the energy pipelines and an ambitious North-South Transport Corridor (NSTC). The

NSTC, sometimes called INSTC (international prefixed) is the ship, rail, and road route for moving freight among India, Russia, Iran, Europe, the Caucasus, and Central Asia. India, Iran and Russia had originally signed the INSTC Convention in December 2000, and nine more countries have since joined it. The objective of the corridor is to increase trade connectivity among major cities such as Mumbai, Moscow, Tehran, Baku, Bandar Abbas, Astrakhan and Bandar Anzali. A strategic partnership among India, Iran and Russia is intended to establish a multi-modal transport link connecting Mumbai with St Petersburg, providing Europe and the former Soviet republics of Central Asia access to Asia and vice versa.

Studies have endorsed the financial viability of the NSTC. The route saves 60 percent time and 50 percent cost as compared to the traditional sea route from India to Europe. Dry runs of the two routes were conducted in 2014: the first was Mumbai (Nhava Sheva) to Baku via Bandar Abbas and the second was Mumbai to Astrakhan via Bandar Abbas, Tehran and Bandar Anzali.⁵ The results showed that the transport costs were reduced by \$2,500 per 15 tonnes of cargo. In addition to the NSTC, Chabahar also features prominently in the proposed gas pipeline between India and Iran. This 1,300-km-long undersea pipeline is of great strategic value. The pipeline will be set up from the Iranian coast via the Oman Sea and Indian Ocean to the Gujarat coast. The \$4.5 billion gas pipeline project, when completed, will be able to transport up to 31.1 million standard cubic metres gas per day to India.

The Future of Chabahar

India started talks with Iran on the Chabahar port in 2003. A Memorandum of Understanding (MoU) was signed between the two countries for the development of the port in May 2015. It was later translated into a formal 10-year contract for equipping and operating the port.⁶ The first phase of the Chabahar port was inaugurated in December 2017 by Iranian President Hassan Rouhani in the presence of officials from 17 countries. During President Rouhani's visit to India in February 2018, New Delhi signed the leasing agreement giving India Ports Global Private Limited (IPGPL) the operational rights of Chabahar's Shahid Beheshti port terminal for 18 months.⁷ In January 2018, India took over the operations of the Shahid Beheshti port, marking the first time that India is operating a port outside its territory. Under the agreement signed between India and Iran, India is to equip and operate two berths in Chabahar port Phase-I with capital investment of \$85.21 million and annual revenue expenditure of \$22.95 million on a 10-year lease.

The heads of the Indian, Iranian and Afghanistan delegations jointly inaugurated the office of the Indian SPV—India Ports Global Chabahar Free Zone (IPGCFZ) at Chabahar. Commercial operations began at IPGCFZ with the arrival of a vessel, a Cyprus registered bulk carrier, at Chabahar, with 72,458 MMT of corn cargo.⁸

Chabahar has two port complexes: Shahid Kalantari and Shahid Beheshti. The former is a traffic port, while the latter has been planned as the future regional hub port. With the extension of the Shahid Beheshti port complex in 2017, the capacity of 2.5 MMT per annum has been expanded to 8.0 MMT per annum, and is expected to reach 20 MMT per annum. Iran has offered India several incentives such as the establishment of a Free Trade Zone (FTZ) and industrial zone near Chabahar. The FTZ is divided into nine functional zones, with 26 percent of the territory being allocated for the trade and service sector, 49 percent for industries, and 24 percent for tourism and residential activities.⁹ India, Afghanistan and Iran are to hold an international event in February 2019 to promote Chabahar. They intend to formulate ways to make the route attractive and cost-effective, decreasing logistic and transit costs. About 500 companies have registered with the FTZ authority at Chabahar for this event.

Pakistan denies access to India to trade with Afghanistan or imposes unrealistic conditions. On the other hand, India, Iran and Afghanistan have signed an agreement to give Indian goods heading for Central Asia and Afghanistan preferential treatment and tariff reductions at Chabahar. The Iranian government has taken measures to encourage foreign capital inflow to the Chabahar port and FTZ. These include protecting the incoming investments under the Foreign Investment Promotion and Protection Act and conforming to key World Trade Organisation (WTO) rules and regulations. The takeover of operations at the Shahid Beheshti port is an important milestone in India's regional connectivity and trade plans, particularly as a regional hub for transit trade, and steel and petrochemicals. It opens up a permanent alternative route for trade with Afghanistan and Central Asia, bypassing a paranoid Pakistan. Chabahar facilitates India's role in Afghanistan's development projects. While for Kabul, overcoming its dependence on Islamabad is a key foreign policy priority, for New Delhi enhancing connectivity with Kabul is the key to sustaining its multi-dimensional engagement in long-term capacity building in the war-torn nation. Towards this, it shall be necessary to encourage the Afghan companies to use the route more, in line with President Ashraf Ghani's desire to have a commercial fleet under the Afghan flag setting sail from Chabahar.¹⁰

The reduction of US footprint in Afghanistan can impact the land sea route through Chabahar.

The Challenges

Chabahar faces a number of economic and geo-political challenges. *First*, the US waiver to India for trade with Iran is not likely to last long. Iran was highly constrained by the economic sanctions imposed by US before the Iranian nuclear accord was signed in July 2015 at Vienna. After the lifting of the sanctions, Iran more than doubled its oil exports, reversed a deep recession and reined in 40 percent inflation. Post the US withdrawal, the Iranian currency has again slumped, though the European nations are still trading with Iran. Britain, France and Germany have sought to set up a financial mechanism to help Iran to continue to export oil to Europe and Asia.¹¹ India may be a party to this multinational set-up to ensure stable prices. India remains sensitive to upward fluctuations in the prices with its crude import bill projected to touch \$125 billion by the end of the Financial Year (FY) 2018-19.

The *second* challenge is the emerging security situation post the likely withdrawal of US forces from Afghanistan. The withdrawal of troops from Afghanistan shall severely impact the land-rail-sea route through Chabahar. The *third* challenge is from Pakistan that shall have a greater leverage in Afghanistan as the US footprint reduces. Pakistan shall be involved in the reconciliation process with the Taliban, and shall make efforts to negate Chabahar which directly competes with Gwadar. Kabul has already warned New Delhi to be ready for possible attacks by Pakistan-backed elements. The *fourth* challenge to India will be similar to that which confronts the US and other global and regional powers: how to nurture a relationship with a resurgent Iran, without adversely affecting ties with the Arab-Gulf countries.¹²

The *last* challenge is from China, Iran's biggest trading partner. China has successfully completed a number of infrastructure projects in Iran, including the Tehran metro. According to Kerry Brown, Professor of Chinese Studies at King's College, London, the Chinese had been ardent supporters of the 2015 Iranian nuclear accord.¹³ The Chinese have, therefore, continued to buy crude oil from Iran. In case India does not convert Chabahar into success, the Chinese may buy stakes in Chabahar as it competes with their flagship Gwadar port of the China-Pakistan Economic Corridor (CPEC). According to Bernt Berger, Senior Fellow at the German Council on Foreign Affairs, Iran provides maritime access to landlocked countries and if China manages to build a high-speed railway across Central Asia, the Central Transport Corridor will

be faster and pose less hurdles in terms of rail-track standards and customs than the northern route via Moscow.¹⁴ In Afghanistan, China has joined the US and Russia in peace talks with the Taliban and is a part of the four-nation Quadrilateral Coordination Group. China may replace India in various developmental and infrastructural projects. It has already invested in the mining, roads, railways and health sectors. A rail link, completed in 2016, and running from far eastern China via Uzbekistan to the river port of Hairatan in northern Afghanistan, could reduce the time taken to make shipments from six months by road, to just two weeks.¹⁵

Way Ahead

The initial lease for the Shahid Beheshti port terminal is only for 18 months. India must show results in this limited period. This includes making the port commercially viable, exporting to Afghanistan and Central Asia and developing the FTZ. India must also seize the opportunity to operationalise the NSTC by working with Iran and Russia. Chabahar is not an ambition but a necessity for India. While the Central Asian markets were ready, the connectivity was lacking. Due to lack of options, Indian exporters had started using the Chinese Lianyungang port and Chinese rail links to Almaty for exports to Central Asia. Chabahar is rapidly changing this dependence matrix. As the US withdraws, the security situation is likely to turn unstable. However, that should not prevent India from engaging in trade with Afghanistan through Chabahar. The soldier, diplomat and businessman have to work together to make Chabahar tick. The partnership with the Persians shall open the doors to the Central Asian riches besides creating a stable Afghanistan.

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Notes

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