

Associate Paper

10 July 2018

Indo-Iran Relations post-JCPoA: the US and the Shanghai Co-operation Organisation

Dr Auriol Weigold
FDI Senior Visiting Fellow

Key Points

- The strength of the Indo-Iran relationship is notable.
- The force of US-imposed sanctions and their likely constraints on Iran and its trading partners have not yet been tested.
- India's reaction to any possible sanctions imposed on it for continuing its development assistance and trade with Iran will not deter it from furthering its relations with Tehran.
- The numerical strength of the Shanghai Co-operation Organisation (SCO) could offer India (a new member) and Iran (with observer status) a new source of background support.
- Iran is faced with a decision: will it negotiate with the United States if the latter's talks with North Korea provide an outcome acceptable to both sides?

Summary

President Trump has withdrawn the US from the Joint Comprehensive Plan of Action (JCPoA), an election promise that he met on 8 May 2018, after ascertaining that support for it was not universal. The European Union (EU) stated its intention to continue to observe the JCPoA and Iran imposed a time limit on its considerations. As *realpolitik* sank in, several European states decided that their interests were best served by maintaining their varied links with the US. India, whose long relationship with Iran is cited below, announced that it would continue its development and trade plans with Iran. Both found support from other

countries and from the Shanghai Co-operation Organisation (SCO), which held its most recent Summit in June 2018. Following Trump's hard and soft diplomatic approaches to North Korea, and Iran's observation of their eventual outcome, Tehran may choose to enter negotiations with Washington.

Analysis

India and Iran's Post-Cold War Relationship

India's relationship with Iran is longstanding and their strategic co-operation has well-established depth. At the end of the Cold War, they shared regional security fears and subsequently witnessed their leaders visit each other's country: Indian Prime Minister Narasimha Rao visited Tehran in 1993 and Iranian President Hashemi Rafsanjani visited New Delhi in 1995. In 2001, the Tehran Declaration paved the way for energy and commercial initiatives, supported by the India-Iran Strategic Dialogue the same year. The New Delhi Declaration in 2003 again broadened their interests, including defence co-operation, and a key instrument was signed, a Road Map to Strategic Co-operation¹. It included the development of Iran's Chabahar Port, potentially opening a new strategic route connecting Iran, India and Afghanistan. In November 2017, India delivered its first consignment of, now regular, wheat deliveries to Afghanistan through Chabahar. Further agreements were signed between Prime Minister Modi and President Hassan Rouhani in February 2018, including on trilateral land-based transit routes north and west to facilitate India's trade to Central Asia. Such agreements are vital to India's interests.

After the Official US Withdrawal from JCPoA

The Indo-Iranian relationship is significant and faced an equally significant threat when US President Donald Trump announced on 8 May 2018 the US withdrawal from the Joint Comprehensive Plan of Action (JCPoA). This took place some three years after the Obama administration and the permanent members of the United Nations Security Council had [announced](#) it. The President's statement started a 180-day period during which his Secretary of State and Treasury Secretary were instructed to re-impose all sanctions on Iran that pre-dated JCPoA. After the first 90 days, due on 6 August, some [sanctions](#) will be applied, including those on Iran buying or acquiring US dollars; trading gold and other precious metals; sale, supply or trade of a range of other metals; sales or purchases of Iranian rials, or significant amounts in rials held overseas, and sanctions on allowing Iranian debt.

On 4 November 2018, further sanctions will apply to Iran's ports and shipping and its energy sector. Sanctions to be imposed by the US also threaten countries that trade with Iran and refuse to comply with Washington's bans. At that point, India may find itself penalised as it has announced its intention not to walk away from its agreements with Iran. Under Trump's presidency, India may not be granted the waivers that it grew accustomed to being granted by the US before and during the Obama sanctions regime. The most important and far-

¹ In full, the 'Memorandum of Understanding between the Government of the Republic of India and the Government of the Islamic Republic of Iran on Road Map to Strategic Co-operation'.

reaching was the US-led waiver that allowed it to apply for admission to the Nuclear Suppliers Group (NSG), thereby demonstrating India's strategic importance to the US. Whether its importance is sufficient to see the US grant a waiver that would allow India to continue its relationship with Iran is yet to be seen.

Trump's announcement provoked a strong reaction from a number of states indicating that they will continue to operate within the JCPoA, including the European Union (EU), despite also being subject to sanctions. Iran has also pushed back. For example, Tehran has given the EU sixty days to guarantee the continuation of the nuclear agreement, but any such guarantee from Europe would also see conditions imposed on Tehran by the EU. Tehran's period of grace lapses around 8 July and may see European states indicate that it would be in Tehran's interests to remain within the nuclear agreement, although European firms may not be in a position to invest in Iran. That said, some European states have taken steps to facilitate trade with Iran despite Trump's decision to penalise such countries.

A European-led public diplomacy campaign in the US has [been mooted](#), aimed at the administration, the media and the public who do not support Trump's sanctions threat. Additional protest, however, is unlikely to have any effect as Trump's administration ramps up the sanctions regime, affecting friend and foe.

India's Position

As expected, India does not intend to comply. The Minister of External Affairs, Sushma Swaraj, said on 28 May that Delhi's position was independent of any other country, and would not be coerced or pressured by another country. Iranian foreign minister Mohammad Javad Zarif held talks with Ms Swaraj, in Delhi, as the two examined ways to protect their energy and connectivity engagements.

The first consequence of sanctions on Iran, however, may be a reduction in oil exports to India. This was the case when earlier sanctions compelled India to reduce imports of Iranian oil to around half the previous level. Not to do so risked Indian companies losing access to the American banking system, again a potential effect of the next round of secondary sanctions. New Delhi secured a raft of sanction waivers under Obama, but Iran's share of India's oil imports [fell](#) to less than seven per cent from around seventeen per cent of India's total oil imports – some 80 per cent in all. If the past is an indicator, this situation may re-occur.

While it is too early to predict the effect of new US sanctions on either country, petrol and diesel prices were increased in India in mid-May and some Indian refiners have begun to reduce their Iranian imports. Payments bypassing US banks for exporters from Iran, and importers risking sanctions, will be a complex task when the ban, initially on Iran buying or acquiring US dollars, comes into force in early August.

Nonetheless, India and Iran are looking forward with plans for a first round of negotiations on a Preferential Trade Agreement (PTA) scheduled for later this year.

The Shanghai Co-operation Organisation

At their backs, as it were, both Iran and India now have the Shanghai Cooperation Organisation (SCO). Its eighteenth summit was held in Qingdao, China, on 9-10 June 2018. At its meeting a year ago, India was inducted as a full member of the Organisation, and Iran is one of four observer states, including Afghanistan. There are also six dialogue partners, further consolidating its regional reach. Including India, the SCO has eight member states: the Russian Federation, China, Kazakhstan, Kyrgyz, Tajikistan, Uzbekistan and Pakistan, also newly-inducted.

The SCO members' internal policies are loosely based on the principles of Panchsheel, derived from India's and China's commitment in 1954 to equity and peaceful co-existence. Its external relations follow non-alignment principles. The Indo-Soviet [Treaty of Friendship and Co-operation](#) signed in August 1971, expressed, amongst other clauses, similar aims to those enshrined in 1954: the of upholding their firm faith in the principles of peaceful co-existence and co-operation between States with different political and social systems, and the conviction that, in the world of 1971, international problems can only be solved by co-operation and not by conflict. Far removed from unilateralism and, nominally at least, in favour of a multipolar global order, it sent as strong a message to Washington then as now.

Iran's President, Rouhani, [addressed](#) the SCO summit, stressing that unilateral sanctions are against international rules and regulations and damage legitimate international trade. He appreciated the members' efforts to preserve Iran's nuclear accord (the JCPOA) and intention to continue to operate according to it. He has the support of the SCO membership in that endeavour.

The SCO's member countries represent around 42 per cent of the world's population, a substantial bloc that offers a different framework for regional stability and trade that differs from the likes of NATO, BRICS and even the Belt and Road Initiative. The Summit reiterated its [commitment](#) to the 'Treaty on Long-term Good Neighbourliness, Friendship and Co-operation', and additional co-operation agreements, including its Regional Anti-Terrorist Structure (RATS), including economic and people-to-people exchanges.

Modi, in his address to the Summit, called for respect for sovereignty, economic growth, connectivity and unity, which are by now familiar themes in his international speeches. Around those themes, he launched a new acronym: SECURE, or "Security for citizens, Economic development, Connectivity, Unity, respect for Sovereignty and the Environment". They are themes that will become constant, whether seeking waivers for India itself and, by extension, Iran, from the US administration, or endorsement from his own electorate.

Take-outs from the Singapore Summit

Trump's negotiation style has emerged as that of a big stick followed by a carrot: demonstrations of hard, then soft, power. He has arguably been unacceptably severely critical of Iran's regime, as he was of North Korea's. Zalmay Khalilzad, a former US ambassador to the UN, drew attention to the present state of friendly negotiation between the leaders in the latter case, and suggested that Rouhani might similarly [choose to](#)

[negotiate](#) with Trump. He argues that Trump has demonstrated his willingness to negotiate following his initial extremely hard line.

While Iran has the backing of the SCO, including its important development and trade partner, India, with China also in the picture, it is likely to be disappointed by fading European support, given Europe's dependence on its US markets. Abandoning the nuclear agreement altogether, if Europe also withdraws from it, is a dangerous course. It is one that may lead ultimately to the adoption of destructive regional ambitions by those local states that are opposed to Iran, if it appeared, however difficult to establish, that Iran had resumed any outlawed uranium-related production.

As yet unclear are the impacts of Washington's sanctions to be enforced on Iran and the level of sanctions threatened to apply to states that continue to deal with Tehran. India, other Asian states, some European countries and SCO members that trade with Iran, will continue to do so. The possibility of obtaining waivers, in this case especially for India, is as yet unknown.

Observing the Washington-Pyongyang negotiations and North Korea's end-position, although it will take some time, could influence Tehran's decision, as could a renewed period of sanctions, with a consequent heightening of domestic political tensions for the Iranian leadership.

About the Author: Dr Auriol Weigold is an Adjunct Associate Professor at the School of Government and Politics, Faculty of Business, Government and Law at the University of Canberra. She has been a Fellow and Honorary Fellow at the Australian Prime Ministers Centre at Old Parliament House, Canberra, between 2010 and 2015, publishing on Australian and Indian prime ministerial relationships. In 2016, she spent a period as a Guest Scholar at the Indian Institute of Advanced Studies at Shimla. Previously, she was Convenor of the BA International Studies at the University of Canberra and an Editor of the South Asia Masala weblog, hosted by the College of Asia and the Pacific at the Australian National University. In 2008, she published her first book: 'Churchill, Roosevelt and India: Propaganda during World War II'. Since then, she has co-edited and contributed to two further books. Her research interests include the Australia-India bilateral relationship, India's energy and security needs, and Indo-British relations in the 1940s.

Any opinions or views expressed in this paper are those of the individual author, unless stated to be those of Future Directions International.

Published by Future Directions International Pty Ltd.
80 Birdwood Parade, Dalkeith WA 6009, Australia.
Tel: +61 8 9389 9831 Fax: +61 8 9389 8803
Web: www.futuredirections.org.au