CHAPTER - 5

INDO-IRANIAN RELATIONS ON THE THRESHOLD OF THE 21ST CENTURY
Despite a multiple constraints of their own, both Iran and India have found ways and means of adjusting their bilateral relations to the challenges of these regional environments. In recent times, both the countries have devised mechanism of bypassing these constraints in seeking to evolve a collaborative policy vis-à-vis Central Asia. In fact, India is not a member of the ECO (Economic Co-operation Organization). Yet Indo-Iranian Co-operation in Central Asia is an important development.

Another area of constraint is the regional environment and its likely impact on bilateral relations. Not only have India and Iran their own constraints in their immediate neighborhood in South Asian and Gulf region respectively, but also their bilateral relations are also likely to be affected by these regional environments. Today, South Asia is being directly and indirectly affected by the Intra-Islamic Cold war, especially between the groups led by Iran and Saudi Arabia. India, with its large Muslim population is also affected by this religious-political cold war. Moreover, India’s relations with the Arab World and Iran’s relations with Pakistan will also have a direct bearing on Indo-Iranian bilateral relations.

If earlier, the Indo-Iranian relation was a bilateral one, in the 90’s the bilateral co-operation was linked to their joint approach towards a third party. Today the thrust is towards Central Asia may be in future, when political situation in West Asia in general stabilizes, the bilateral co-operation between India and Iran might also be directed towards the Gulf region,
where the good will and expertise of India has already acquired, will be an added input.¹

In the 90's Iran was primarily interested in building up such regional blocs of economic and technical co-operation. India's expertise in the field of natural gas technology was considered an asset. Oil and natural gas are going to be an area of serious long-term bilateral co-operation between India and Iran. Iran always has been a major supplier of oil to India beginning with the late sixties when Iran not only helped India in the construction of the Madras Oil Refinery, but also supplied Iranian Crude oil for that refinery.² Changes and continuity in the relations at the political level had no serious effect upon the supply of oil from Iran to India.

In the context of the bilateral relations natural gas assumed added significance. The natural gas supplied through pipelines will create certain systematic linkages that will be very difficult to ignore by either party not only because of the very nature of supply and demand relationship, but also due to the in built linkages with downstream development activities. Hence, natural gas will prove to be of greater cementing value in bilateral relationships.

Iran has the largest proven natural gas reserve in the gulf region mounting to approximately 20,000 trillion cubic meters. Its present natural

² Ibid.
gas production is more than 58 billion cubic meters per year.\(^3\) About 26 billion cubic meters is marketed, mostly domestically. The rest is used in the oil industry. A small quantity is exported to the CIS states. In the seventies, Iran was exporting about 10 billion cubic meters per year to the USSR. There were proposals to expand that under a tripartite agreement that would have enabled Iran, USSR and States of Europe to develop an integrated natural gas grid.\(^4\)

Today, Iran is again seeking to revive its natural gas export not only to North Europe, but also is keen to cultivate new markets in South Asia. Iran has proposals to develop its substantial gas reserves in the South Pars Gas field. Iran also has proposals to link all its gas fields by a grid of pipelines. However, pending that project, Iran can exploit its large gas reserves to South Asia and Far East. Besides the gas reserves of Salak and Gavarzinia in the Qeshm islands in the straight of Hormuz, Iran has four gas fields on the main lands around Bandar Abbas. They are Suru, Gashu Mamaki and Sarkhun. These gas fields can easily be connected by pipeline to Jask in the gulf of Oman, from where the gas can be dispatched to its destinations in South Asia and Far-east.

Iran has been negotiating not only with India but also with Pakistan for\(^5\) its sale of its natural gas. From the year 1989, negotiations with Pakistan had started while talks with India took concrete shape only in April

\(^3\) Ibid.
\(^4\) Ibid.
\(^5\) Indian Express, April 15, 1993.
1993 during the visit of Nezad Hosseiniyan, Iran's Minister of Heavy Industry. During these visits exploratory discussions on the question of pipeline that would carry Iranian gas to India was carried out. At that time, the cost was estimated to be about 3-4 billion. The Iranian Minister reportedly told that Iran was willing to find financier for the project. Japanese Firms had showed the desire towards this goal.

During this visit of the Iranian Minister, Dr. Manmohan Singh had reportedly told him that it would be difficult for India to find finance for that proposal. More negotiations were held in November 1993 during the visit of Iranian Oil Minister to India. Subsequently in December 1993, Capt. Satish Sharma, Minister for Petroleum and Natural Gas, told the Indian Parliament that India and Iran had agreed to jointly commission a pre-feasibility study of pipeline between the two countries. Both India and Iran had also signed a Memorandum of understanding. Capt. Satish Sharma told the Rajya Sabha on 2 March 1994 that Iran had given the assurance to supply 56 million cubic meters per day or about 20 billion cubic meters per year, natural gas to India and that pipeline would be the joint effort of India and Iran.

Changing Pattern of Relations

A kind of commercial, mercantilist strain is embedded in the India-Iran equation not with standing strategic congruities concerning regional

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6 Ibid.
7 Hindustan Times, 3 March 1994.
8 Indian Express, 3 March 1994.
instability in Afghanistan and Central Asia. This is evident judging by the official pronouncements and the areas of co-operation sought by both the nations. Interestingly though the two afore mentioned declarations (2001, 2003) provide worldview assumptions consistent with the purported intent to upgrade relations to the “strategic level” to mutually affirm each other’s concerns and for the perceptual benefit of Western capitals. In the Tehran Declaration both sides affirm that only “an equitable, pluralistic and co-operative international order can address effectively the challenges of our era”.

The Tehran declaration signed during Prime Minister Vajpayee’s visit to Iran in April 2001 goes on to “express concern over restrictions on exports to developing countries of material, equipment and technology or peaceful purposes and reaffirm in this context the right of states to development, research production and use of technology, material and equipment for such purposes”.

This is a pointed reference to American, proliferation concerns over the nature of Iran’s unclear programme, particularly at the Bushehr Plant and the assistance provided by Russia and China. Following a 1999 agreement to provide two 440 MW Reactors, Russia announced 10 year nuclear co-operation accord in July 2002 to expand Iran’s nuclear reactor programme including the completion of Bushehr at a cost of $ 800 million

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10 Ibid.
The 2003 Delhi declaration retains the oblique reference to US restrictive endeavors despite the open American resistance to the Russian involvement in Bushehr. In fact, the Delhi Declaration shored up Iran's case for developing its programme.

The Tehran Declaration on the other hand, castigates terrorism "in all its forms condemning states that aid, abet and directly support international terrorism", in a veiled reference to Pakistan (Similar concerns were mapped out in the 1999, 2000, and the 2001 annual reports. From 2002 onwards, energy security is not identified as an explicit area of concern although energy resources are sometimes referred as a reason for a particular region's importance (e.g. Central Asia or Straight of Hormuz). Other areas of persistent interest include the regional spread of Islamist violence and terrorism; stability throughout this extended strategic environment; burgeoning crises (e.g. Tajikistan in the late 90s, North Korea in recent years, the U.S. military involvement in Afghanistan and Iraq); security of the sea-lanes of control; as well as a diverse array of non-hydrocarbon economic issues

Within this extended strategic neighborhood, India has a number of specific strategic goals. First and foremost, it seeks to be recognized as the preeminent power within the Indian Ocean basin. New Delhi already believes that it is the preeminent power of South Asia. India also seeks to
be-and to be seen as a global power in due course.\textsuperscript{11} Second, New Delhi believes that it has a natural role in shaping regional security arrangements to foster stability throughout the Indian Ocean basin and beyond. India’s Ministry of Defence Annual Report 2005-06, for example, notes the “slow but steady” progress made in achieving “a truly multi-polar world, with India as one of the poles...”\textsuperscript{12} Third, India is willing to be proactive to prevent developments that are fundamentally inimical to its interests by relying upon two instruments of India’s power; its economic and political sources of influence.\textsuperscript{13}

Consonant with this expansive interest within the entire Indian Ocean basin, India has pursued actively a “Look East” policy\textsuperscript{14} and has maintained a very sophisticated greater Middle East policy that includes Israel, Iran, and several Arab states.\textsuperscript{15} India is continuing its efforts to consolidate its strategic footing in Central Asia-including two airbases in Tajikistan-and in Afghanistan, for which India needs Iran.\textsuperscript{16} This is in addition to the unprecedented expansion in Indo-US. ties as we with the European Union

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\textsuperscript{11} For a critical view of India’s climb to major power status, see George Perkovich, “Is India a Major Power,” \textit{The Washington Quarterly}, Vol. 27, No.11, pp. 129-144, Winter 2003-04.  
and China. Regarding this complex set of relations, India has been consistently clear to the parties that it will maintain its “strategic independence”, by which it means that India will pursue bilateral relations as called for by Delhi’s regional requirements-irrespective of discord that these states may have with each other.

The Iran Factor in India’s Objectives in Central Asia

It is important to understand India’s presence in this region (as well as its involvement in Southwest and Southeast Asia) within the overall context of India’s rise as a supra-regional power. In recent years, India has struggled to project itself as having concerns other than Pakistan both to counter the once prevalent view that India is shackled to Pakistan and to establish India as an important power beyond the perimeters of South Asia. In short, India wants to be a supra-regional power and it wants to be seen as one in other capitals.

This does not mean that India’s Central Asia strategy does not have import for India’s relationship with Pakistan because it does: Should India’s Central Asia initiatives continue at the current pace, those same states that once comprised Pakistan’s notion of strategic depth will have become part of India’s strategic depth vis-à-vis Pakistan. This has not been lost on Islamabad which watches warily as India consolidates ties with Iran,

17 Stephan Blank articulated this notion in “India’s Rising Profile in Central Asia,” Comparative strategy, Vol.22, pp. 139-157, 203, however this is a fairly common Understanding among analysis of India’s foreign policy and strategic perceptions and Fairly apparent from a perusal of Indian literature such as the Ministry of Defense Annual Report.
Afghanistan, Central Asian republics and even China at a time when Pakistan is internationally isolated despite its contribution to the global war on terrorism.

India significantly expanded its engagements in Central Asia in the mid 1990s, but it was not until 2000 that India came to be seen as a “Central Asia” player in active competition with Pakistan, China, and the United States among others. There are several facets of India’s interest in Central Asia only some of which are Pakistan-focused. India sees enormous energy potential in the region, including Iran. India is currently the world’s sixth largest energy consumer with more than half of its electricity production based upon coal. In 2003, India produced 33 million tons (mt) of crude oil, it imported 90 (mt) – or 73% of its total requirement of 123 mt. Some analysts believe that by 2020, India may become the fourth largest consumer following only the United States, China and Japan. India hopes that it can diversify its energy sources and Central Asia, with its promising gas and oil reserves, has long preferred and important means to

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19 In the 1990s, for example, India sought to thwart Pakistan’s efforts to minimize India’s involvement in the area. During this period, Pakistan had grand regional designs which were built around its belief that Afghanistan could become a stabilized client of Islamabad.


do so. The Central Asian states are believed to have 2.7% of the world's confirmed oil deposits and 7 percent of the world's natural gas deposits.\(^\text{23}\)

India also sees Central Asia as an enormous consumer market for Indian products as well as its human capital and manpower. Indian commodities have already established a foothold in the various Central Asian markets such as tea, pharmaceuticals and chemicals, but India wants to increase the number and kinds of products its exports to Central Asia. India also hopes to secure important contracts for infrastructure projects such as ports, airports, roads and railways and India sees important opportunities in providing banking and insurance services, information technology and other such services. Indian infrastructure projects will also enable Indian goods to move from India through Central Asia to Russia and even to Europe via the “North-South Transport Corridor” built by Russia, Iran and India.

Militarily and strategically, Central Asia is an important theatre for India. While India's objectives in the region reflect interests that reach far beyond Pakistan, the fact remains that India is interested in countering Pakistan in this region. Throughout the 1990s, Pakistan saw Central Asia as providing it “strategic depth” in the event of a military crisis with India. Moreover, because Central Asia is home to many Muslims and because of the geographical proximity to Pakistan, Islamabad saw Central Asia as a

natural sphere of influence for Pakistan. Islamabad's interest in cultivating Central Asia motivated its policies in Afghanistan in hopes of securing a pliant regime in Kabul that would accommodate Pakistan's accent into Central Asia. Many in Pakistan believed that Pakistan comprised a reasonably good model for Islam and democracy and could offer important roles for governance for the newly independent Central Asian states.

Now India is actively moving to consolidate its presence at a time when Pakistan, chastened by its failed and dangerous policies in Afghanistan, is looking inward towards its own internal security concerns. India is consolidating is military, intelligence, political and diplomatic presence throughout Iran, Afghanistan and Central Asia. Apart from defense and intelligence ties with Iran to be discussed below, India has a functional air base in Farkhor Tajikistan since May 2002. Farkhor reportedly was negotiated following Pakistan's closure of its airspace to India in the 2001-02 military crisis and is reported operational. India has recently announced a second base in Tajikistan at Aini. The Indian Air Force plans to base a fleet of MiG-29s there and it is hoped that this base will afford India "longer strategic reach". India aims to provide military technical assistance in the areas of maintenance and upgrades on Russian systems and has sought arms deals with various Central Asian states as an important sources of foreign exchange and as a means of projecting its influence in the region.

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Institutional Structures and Bilateral Relations

One of the first institutional mechanisms to guide Indo-Iranian relations is the “The Indo-Iran Joint Commission”, which was established in 1983. This commission convenes at the foreign minister level to discuss and review progress made on economic issues. A second major milestone in the institutionalizing of the relationship was the signing of the Tehran Declaration, Signed by Iran’s President Khatami and India’s Prime Minister Vajpayee during the latter’s April 2001 visit to Tehran, this accord focused heavily upon energy and commercial concerns including a commitment to accelerate the development of a gas pipeline and finalizing an agreement by which Iran would provide India liquefied natural gas (LNG). This agreement also reaffirmed their commitment to develop the North-South Corridor and to encourage their commercial sectors to utilize the corridor. They also agreed to promote scientific and technical cooperation.28

One of the important mechanisms that came out of the 2001 meeting was the India-Iran Strategic dialogue. The first such meeting was held in October 2001 and was convened by India’s then Foreign Secretary, Chokila Iyer and by Iran’s Deputy Foreign Minister for Asia and Pacific Mr. Mohsen Aminzadeh. That first meeting focused on three major areas of mutual concern: (i) Regional and international security perspectives. (ii) Security and Defense Policies of India and Iran, and (iii) Issues related to the international disarmament agenda.29 This body has subsequently met four times, the most recent in May of 2005. That meeting, convened by Iran’

28 Full text of the New Delhi Declaration is available at: http://pib.nic.in.
Deputy Foreign Minister Mohsen Aminzadeh and Under Secretary of Indian Ministry of External Affairs Rajiv Sigri, focused heavily on the gas pipelines and upon a bilateral agreement for LNG.\(^{30}\)

The most recent and arguably most important set of frameworks guiding Indo-Iranian relations is the January 2003 New Delhi Declaration, penned during President Khatami’s visit to New Delhi, along with even additional Memoranda of Understanding.\(^{31}\) This document builds off and expands the 2001 accord. It focused on international terrorism and the shared position that the Iraq situation should be resolved through the United Nations. Both states expressed an interest that they should pursue enhanced cooperation in the areas of science and technology, including information technology, pharmaceutical development and manufacture, food technology. Some reports also suggest that space advancements (e.g. satellite launch) were discussed although there is no such mention in the actual accord.\(^{32}\) The enduring mainstays of the engagement, hydrocarbon and water issues, also figured prominently as did their mutual interests in exploring education and training opportunities. (India has a robust post-secondary education infrastructure from which Iran could benefit tremendously). Naturally, both concurred that there should be close cooperation on efforts to reconstruct and rehabilitate Afghanistan.\(^{33}\)

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\(^{31}\) See Ministry of External Affairs, India (2003).

\(^{32}\) See the Government of India, Ministry of External Affairs, President Mohammad Khatami’s Visit to India 24-28 January 2003 New Delhi,” Available at http://meaindi.nic.in. and http://meaindia.nic.in. See also “India - Iran have co-operation in space research” (February 2003). See also “India, Iran Cooperating on Space Research”, Times of India, February 1, 2003. See also Ministry of External Affairs, India (2003). See also Sengupta (2003).

\(^{33}\) See Press Information Bureau (of India) (January 28, 2003).
One of the key instruments signed included the “Road Map to Strategic Cooperation.” This document follows the New Delhi Declaration closely and establishes a targeted framework to fulfill the objectives set forth by the Declaration. The key areas mapped out include concrete steps on oil and gas issues (e.g., the ever-challenging pipeline project), the commitment to expand non-hydrocarbon bilateral trade and other forms of significant economic cooperation, the joint effort to further develop the Chahbahar port complex, the Chahbahar-Fahraj-Bam railway link, and the Marine Oil Tanking Terminal. Perhaps the most controversial commitment spelled out included more robust defense cooperation between the two.\(^\text{34}\) The document committed both sides to exploring political dialogue and modalities of cooperation on issues of strategic significance through the mechanisms of the Indo-Iran Strategic Dialogue, foreign office consultations and the institutional interaction of both national security councils.

**Economic Interests**

As reflected in the 2001 Tehran Declaration and the 2003 New Delhi Declaration, India and Iran want to move ahead on commercial and energy issues. Iran has the third largest reserve of oil with a proven reserve of nearly 132 billion barrels.\(^\text{35}\) Iran also has the second largest proven reserve of gas with 971 billion cubic feet.\(^\text{36}\) Iran is anxious to get its hydrocarbons

\(^{34}\) See C.Raja, “Tending to the Neighborhood,” The Hindu, February 2003.


out of the ground and into new markets and energy-hungry India wants to be such a market. India is not alone in seeking Iran’s oil and gas. China, India’s long-term strategic peer with exacting energy demands, seeks Iranian and Central Asia resources and that this need for energy resources will become yet another theater of competition for these two Asian giants.

However, there is a long way to go on the energy relationship between Iran and India. Currently, Indian crude oil imports from Iran ranges between 100,000-150,000 barrels per day (bpd), which bout 7.5% of India’s total crude oil imports (around 2 million bpd).\(^37\) India also seeks to obtain natural gas from Iran by the much-disputed “pipeline” transporting gas from Iran to India via Pakistan. India and Iran also have ostensibly “finalized” a $22 billion deal whereby Iran will supply five million tons of LNG to India each year. The deal was signed by India’s GAIL (Gas Authority of India Limited) and Iran’s NIGEC (National Iranian Gas Export Company), a subsidiary of the National Iranian Oil Company (NIOC). According to this agreement, LNG will be supplied over a 25-year period commencing from 2009 at a price of U.S. $3.21 per Million British Thermal Units, or MMBTU.\(^38\)

This deal may not come to fruition nay time soon for at least two major reasons. First, in May of 2006, Iran has said the contract was never

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\(^38\) This deal has been discussed in various guises with different details in various sources. India and Iran have had tense discussions about when is a contract. In May of 2006, Iran said that the deal had not been ratified and therefore could still be Cancelled. The contours are generally the same however see for example, “When is a Contract not a contract?” Rediff.com, May 9, 2006, available at http://ia.rediff.com. “India finalizes a US $20 billion deal to import liquefied natural gas (LNG) from Iran beginning 2009-10,” India Daily, June 14, 2006, available at http://www.indiadaily.com.
ratified by the Supreme Economic Council, which is required before the deal
can go before the NIOC for approval. NIOC approval is needed before the
contract can be honored. Indian analysts suspect that Iran may be
attempting to exploit the projected continuing increase in crude prices to
bargain for a more advantageous LNG price. Other analysts have
suggested that this may be a punitive measure taken in response to India’s
February 2006 vote at the IAEA to refer Iran to UNSC.

Not with standing the validity of this contract and or Iran’s intentions
to honor it, the second challenge is more intractable. Iran lacks the
capability to produce LNG and the prospects for obtaining such a capability
any time soon are dismal. First and foremost, American components are
generally necessary and the United States will not provide Iran such
components. Exxon, Chevron, Shell and Total hold the main patents. While
Iran could use the latter two companies to develop an LNG terminal, to date
no LNG terminal has ever been built without any American-made
components and most LNG plants use processes developed by U.S.
companies. While Shell and Total are U.S. companies, was discussed
below, the looming prospects of more sanctions are discouraging.

Iran has been struggling to obtain LNG capability without U.S.
components by engaging European companies such as France’s Total and

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39 Based upon the Energy Information Administration “Country Analysis Brief-Iran,” January 2006,
available at http://www.eia.doe.gov. and upon personal communications with Henry Rowen,
Mark Hayes, Mojan Movassate, and with Medhi Varzi in April 2006 All of these individuals are
well-reputed authorities on this issue.
Royal Dutch Shell. As noted, this remains a long shot as to date no such plant exists. Both Total and Shell considered entering the Iranian market to develop an LNG capability in the South Pars field, Iran's largest natural gas field. However, sanctions have compelled them to reconsider. In the 1990s Total was prepared to ignore threatened U.S. sanctions and sought to team up with *Petrnas* to develop Phases 2 and 3 of South Pars. However, now that France is working in tandem with the U.S. it favors stronger measures against Iran. Shell and *Rapsol YPF* have also had to rethink their agreement with the NIOC to build two LNG trains fed by phase 13 of the South Pars gas field. (Part of this output was earmarked or India.) Even if Iran had a partner that was willing to disregard the problem with sanctions, there is also a dearth of human capital. Total for example reportedly began looking for engineering contractors for the Iran venture. However, it appears as if there are none available. Given the large number of liquefaction projects being built and expanded in Qatar, Egypt, Nigeria, Angola and elsewhere, contractors are raising their prices and components and manpower are simply in short supply. Given the going price for LNG engineers and lucrative opportunities elsewhere, there is simply little incentive for contractors to work in Iran given the ever-looming threat of sanctions. It would appear that irrespective of the status of Indo-Iranian

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40 South Pars is to be developed in 28 phases although only 18 are active at present. See the Energy Information Administration's "Iran Country Analysis Briefs," section on natural gas. Available at http://www.eia.doe.gov.
41 See "Iranian Sanctions Threats," World Gas Intelligence, January 28, 2006 provided to author by Mark Hayes.
42 Personal communications with Henry Rowen, Mark Hayes, Mojan Movassate, and with Medhi Varzi in April 2006. All of these individuals are well-reputed authorities on this issue.
relations, there are technical issues that make this LNG deal unlikely in the near future.

While any resolution of these energy concerns are a long way off, India and Iran appear to be moving forward on their commitment to build a North-South Corridor with Russia. Russia, Iran and India signed this agreement (called the Inter-Governmental Agreement on International "North-South Transport Corridor") in September 2000 in St. Petersburg. Because this corridor is a part of an Indo-Iranian initiative to facilitate the movement of goods across Central Asia as well as Russia, both India and Iran entered into an earlier trilateral agreement with Turkmenistan in 1997. This North-South corridor permits the transit of goods from Indian ports to Iran's port of Bandar Abbas or hopefully Chahbahar. Goods transit Iran via rail to Iran's Caspian Sea ports of Bandar Anzali and Bandar Amirabad. They are then transferred to ports in Russia's sector in the Caspian. From there, the route extends along the Volga River via Moscow and onward to northern Europe. This is intended to serve as an alternative cargo route that links Indian products with Russia through the Baltic ports of St. Petersburg and Kotka in Rotterdam or through the Ukrainian Black Sea ports of Illychevsk and Odessa to connect to the Mediterranean. With a length of only 6,245 km it is an enormous improvement over the 16,129 km route through the Suez Canal and the Mediterranean. Indian officials are very enthusiastic about this route because it will reduce the logistics of moving goods; diminish travel time and transport costs. Trial runs began in
early 2001 with some 1,800 freight containers moving through it and officials expected those figures to rise by the end of 2002. According to early reports in 2002, officials expected the corridor to handle 15 million to 20 million tons of freight at $10 billion per year.43

As a part of this agreement, India agreed to help expand the Iranian port of Chahbahar and lay railway tracks that would connect Chahbahar to the Afghan city of Zaranj. (Iran hopes that expanding Chahbahar will relieve some of the congestion of Bandar Abbas.) Part of the concern that emanates from this activity is the ambiguity about what kind of facility or facilities will materialize at Chahbahar. Currently, India claims that this will be a commercial port. However, others in the region - such as Pakistan and China - fear that once it is complete, Indian naval vessels will have a presence there. These apprehensions are important and may affect the Chinese and Pakistanis planning at Pakistan's Goadr port. The Goadr port lies along Pakistan's Makran coast, only a few hundred kilometers from Chahbahar. Goadr is being modernized and expanded with Chinese capital and is hoped to diminish Pakistan's vulnerability to a naval blockade of its major port in Karachi and has added importance in light of Indian and Iranian activities at Chahbahar.

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India has also committed to upgrading the 215km road that links Zaranj and Delaran as a part of circular road network that will connect Harat and Kabul via Mazar-e-Sharif in the North and Qandahar in the South. This would permit Indian goods to move into Afghanistan via Delaran and beyond.\textsuperscript{44} This initiative to expand trade into Afghanistan is part of a trilateral agreement signed with Afghanistan in January 2003. This agreement permits Afghan exporters to use Chahbahar with a 90 percent reduction on port fees and 50 percent saving on warehousing charges. Afghan vehicles are also given full transit routes on the Iranian road system.\textsuperscript{45}

Business delegations have played an important role in consolidating business ties between the two. Khatami’s 2003 delegation to New Delhi included a 65-member business group and they weighed some $800 million in joint ventures that would involve 400 Indian and Iranian companies. India’s Ministry of External Affairs contends that Indian investment was sought in Iran’s automobile, IT and textile sectors and it was agreed that India could provide Iran with commodities such as sugar, rice, pharmaceuticals, food oils and engineering goods. Both sides made a concerted effort to push non-oil trade.\textsuperscript{46} One of the means by which this is going forward is the Joint Business Council set up by the Indian Chambers


\textsuperscript{46} Ibid.
of Commerce and Industry and the Iran Chamber of Commerce, Industries and Mines.\textsuperscript{47} Overall the trade picture appears to be promising: In 2003-04 trade between them was $1.18 billion, up from $913 million in 2002-03.\textsuperscript{48}

**Defence and Intelligence Ties**

While these two states have been talking about “Political and strategic relations” for some time with few concrete results, the last few years have witnessed ostensible substantive advances. As noted above, they have instituted a Strategic Dialogue that has met four times since October 2001. This dialogue is the forum is designed to explore opportunities for cooperation in defence in agreed to areas, including training and exchange visits consonant with the commitments articulated in New Delhi Declaration. Indian analysts believe that this New Delhi accord will boost armament exports to Iran and this is a view that appears to be shared by Iranian analysts as well.\textsuperscript{49} India and Iran have also established a joint working on counter terrorism and counter-narcotics, reflecting their mutual security concerns in these functional areas.

Iran sees India as a partner in its efforts to fortify and modernize its defences and hopes that India will provide expertise in electronics and telecommunications as well as upgrades for many of its legacy Russian weapon systems. India has been anxious to become a source of

conventional military assistance providing modern weapons platforms and
spare parts for Iran's legacy Russian systems. India is well situated to
provide such platforms, spare parts and upgrades because it has acquired
the capability to manufacture a wide array of Russian military hardware
under license. Because the bulk of its military inventory is Russian origin,
India has developed a robust ability to repair and improve original designs
to meet its needs over the past decades. As India moves forward with plans
to develop and produce new platforms, third party buyers will be a
welcomed means to achieve economies of scale and India will be looking to
Central Asia and Iran for such buyers.  

While these grandiose designs have not materialized, here have
been various and consistent reports of specific military deals cut between
India and Iran. In 2001, Indian Defence Secretary Yogendra Narain met with
his Iranian counterpart Ali Shamkhani to explore arm sales to Iran.
According to the Indian press, India has trained Iranian naval engineers in
Mumbai and at Visakhapatnam. Reportedly, Iran is also seeking combat
training for missile boat crews and hopes to purchase from India simulators
for ships and subs. Iran also anticipates that India can provide mid-life
service and upgrades for its MiG-29 fighters; retrofit its warships and subs in
Indian dockyards. India helped Iran develop batteries or its submarines,

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50 See Stephan Blank, "India's Rising Profile in Central Asia," Harsh V. Pant, "India and Iran: an
"Axis" in the Making?," Asian Survey, Vol.44, No.3, July/August 2003; John Calabrese, "Indo-
Iranian Relations in Transition," Journal of South Asia and Middle Eastern Studies, Vol.25, No.3,
Summer 2002.

51 See Calabrese (2002, pp. 75-76). See also "India-Iran military ties growing," Strategic Affairs,
which are more suitable for the warm-weather Gulf waters than those supplied by the Russian manufacturer.\textsuperscript{52} There were also reports that Iran wants Indian technicians will refit and maintain Iran’s T-27 tanks as well as its BMP infantry fighting vehicles and the towed 105 mm and 130 mm artillery guns. India is also planning to sell Iran the Konkurs anti-tank missile.\textsuperscript{53}

There were several news reports (albeit of uncertain authority) of a bilateral accord that will permit India to access Iranian military bases in the event of war with Pakistan as well as afford India to rapidly deploy troops, surveillance platforms as well as military equipment in Iran during times of crisis with Pakistan. If true, this is a turning point in regional relations and one that will in principal put Iran in opposition to Pakistan. These same reports claim that India and Iranian troops will conduct combat training and naval forces will conduct “operational and combat training on warships and missile boats.”\textsuperscript{54}

This author has found very little information about actual engagements between Iranian and Indian ground and air forces. There has been some activity in the naval sphere, the two navies carried out their first

\textsuperscript{52} Anthony Cordesman, Iran’s Developing Military Capabilities (Washington D.C: CSIS, 2004).
\textsuperscript{54} Ehsan Ehrari, "As India and Iran Snuggle, Pakistan Feels the Chills," Asia Times, February 11, 2003.
joint naval maneuvers in the Arabian Sea in March 2003. This exercise was likely motivated at one level by the mutual concern about the security of sea-lanes of control and at another level by their discomfort with increasing presence of the United States in the Persian Gulf in preparation for the invasion of Iraq. This 2003 naval exercise was notable both because it coincided with the mounting U.S. military presence in the Persian Gulf and Arabian Sea and because among the burgeoning US-Indian defense ties, the US-Indian naval relationship has been the most dramatic in the depth and breadth.\(^55\)

The two conducted their second naval exercise on March 3-8 2006, overlapping with President Bush’s trip to Afghanistan, India and Pakistan. There has been considerable acrimony over the precise nature of this engagement. According to a March 27, 2006 article published in Defence News, this naval engagement took place in Kochi and involved the IRIS Bandar Abbas (a fleet-supply-turned training vessel) and the IRIS Lavan, an amphibious ship. A spokesman for the Indian Navy’s Southern Command reportedly explained that Indian naval instructors briefed nearly 220 sailors.\(^56\) The exercise coming at a time when Congress was being asked to consider a civilian nuclear deal with India inflamed critics of the deal. Indian

\(^{55}\) See C. Christine Fair, The Counter terror Coalitions Cooperation with India and Pakistan (Santa Monica: RAND, 2004 and Christine Fair, “Indo-Iranian Relations: Prospects for Bilateral Cooperation ost.9-11,” in Robert Hathaway Ed. The “Strategic Partnership” Between India and Iran, Woodrow Wilson International Center for Scholars, Asia Program Report, No. 120, April 2004.

and U.S. government officials have been busy first denying the visit took place and now dismissing the characterization of the visit as exaggerated. Both U.S. and Indian officials deny that any “training” took place and that this was a standard port call.\(^5^7\)

To focus merely on the substance of that particular exercise is to miss the larger picture of Indo-Iranian naval ties as described by Indian analysts. Recently, a senior fellow with India’s Observer Research Foundation described Indo-Iranian maritime relations in the following way:

India and Iran have enjoyed good maritime relations that include high-level political and military visits, joint-naval exercises, naval technology cooperation, and maritime infrastructure developments symbolized by port development in Chahbahar. Naval cooperation between the two sides dates back to the mid-1990s when the Indian Navy helped the Iranian Navy to adapt four Russia-built Kilo-class submarines for warm water conditions in the Persian Gulf.\(^5^8\)

Another important aspect of that naval visit was its timing and symbolism. As noted, it was concurrent with President Bush’s visit to South Asia during which President Bush agreed to deliver to India a path breaking

\(^{57}\) See Sridhar Krishnaswami, Iran not getting military training from India; Rice, Rediff, April 6, 2006, available at http://in.rediff.com. Most recently on May 15, Under Secretary of State for Political Affairs R. Nicholas Burns, addressed the issue at a presentation on the U.S. India Civilian Nuclear Deal at the Carnegie Endowment for International Peace.

civilian nuclear deal that requires legislative action by Congress and concomitant review of the deal and its implications. Indian officials correctly noted that the naval exercise was months in the planning. While this is surely true; it is equally true that the Bush visit was months in the planning. While the naval exercise particularly one as unimportant as officials indicate could have been postponed given the symbolic importance of such an exercise that the exercise went forward was an important reassuring signal to Tehran that India’s foreign policies will not be dictated by Washington.\(^5\)

As Berlin notes, most analysts of South Asia infer that there are close security ties between the two because of the unusually large Indian consulate in Zahedan with a likely intelligence presence.\(^6\) (This author visited that consulate in 2001 and generally agrees with Berlin’s description. The size and scope of its operation are notable because Zahedan is a small town, located in Iran’s backwater Baluchistan province. Zahedan is close to the Pakistan border and the epicenter of narcotics trafficking. India also established a consulate in Iran’s port city of Bandar Abbas in 2001, which will permit India to monitor ship movements in the Persian Gulf and the Strait of Hormuz.\(^7\)

What does all of this information mean and how does it square with U.S. administration assertions that “The Indian government tells us they

\(^5\) Tom Lantos to particular was disturbed by the exercise and opined that “… in order to become a strategic ally of the United States, India must recognize some basic facts, specifically some facts with respect to Iran. Reported by Aziz Haniffa, “India Not a Threat to NPT: Lantos,” Roliff.com, April 6, 2006 available at: http://in.rediff.com.


don’t have a significant defence-trade relationship with Iran. If you look at the figures that are available to the CRS [The Congressional Research Service], they are quite in significant actually on an annual basis. While the allusion to CRS may not be accurate, the SIPRI Arms Transfers Database provides limited information on “transfers of major conventional weapons” to numerous countries, including Iran. Indeed a perusal of those data reveals that India does not even appear within their Iran data. The largest suppliers of major conventional weapon systems are Russia (72% in 2005) and China (18% in 2005).

Thus when measured by the metric of “major arms transfers,” Burns is absolutely correct. However, as the foregoing discussion indicates, much of what India has done to date would not appear in such databases (e.g. upgrades, retrofits, training, etc.). Furthermore, given that Iran is only now beginning a serious modernization of its armed forces, India has not had the chance to act on the various openings. (Iran expressed an interest in a five-year defense modernization plan in 2001, which would rely upon regional states like India).

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62 Keynote address by the United States Under Secretary of State for Political Affairs, R. Nicholas Burns at the Carnegie Endowment for International Peace on May 16, 2006 panel discussion on “U.S.-India Relations: The Global Partnership,” Attended by the author.
64 See “Crude Trades Above 569 as Iran Modernizes Army; UN Meeting Due,” Bloomberg Online, May 16, 2006, Available at: http://quote Bloomberg.com.
Nuclear Research Co-operation

In the past, India had extended its co-operation to Iran on civilian nuclear programmes. In the year 1991, India sought to sell Iran a 10 megawatt research reactor- to be installed at Moallem Kalyach and may have also considered selling Iran a 220 megawatt nuclear power reactor. While both were to be placed under the acceptable safeguards, the United States pressurized India not to go through with the sales, fearing that Iran would use these facilities to make weapon grade fissile materials.

In fact, India had trained Iranian nuclear scientists in the past according to the statement of the Indian officials. Indian External Affairs Minister Yashwant Singh explained that India “has and would continue to help Iran in its controversial effort to generate nuclear energy.” Yashwant further explained “we have a long record on peaceful uses of nuclear energy”. He also added that India is collaborating with Iran on civilian nuclear energy although he provided no details as to what this would be. However, the Indian officials later clarified that co-operation in the peaceful uses of nuclear energy with Iran has only been under the International Atomic Energy Agency Technical (IAEA) cooperation programme. The officials denied having any ongoing programme with Iran.

\[66\] Ibid.
\[67\] Interview with Jehaugir Poeha. “Concern increases over ties between India, Iran Nuclear Arms Proliferation Worries US.” San Francisco Chronicle, Oct 14, 2003.
Subsequently, when J.N. Dixit, India’s National Security Adviser visited Tehran and met President Khatami, he stated that New Delhi would always support Tehran’s peaceful use of nuclear technology. During the occasion, Iran reiterated its commitment to co-operate with IAEA.

Two Indian Scientists, YSR Prasad and C. Surendar who had provided technical assistants to Iran's nuclear program had submitted their reports to the Government of India. These reports led to New Delhi becoming cautious about nuclear co-operation. In Sept. 2004, USA imposed sanctions upon them under Section 2 & 3 of the Iran Proliferation Act 2000 of the USA. India objected to US sanctions against its scientists, saying that YSR Prasad had visited Iran only under the aegis of the IAEA Technical programme. India stated that one of the scientists Dr. C. Surendar had never visited Iran either during his service or after his retirement. Dr. YSR Prasad had given advice only on safety related aspects with the nuclear Power Plant Bushehr that was under the IAEA safeguards.

Space Research and Indo-Iranian Co-operation

Regarding Indo-Iranian Space Research also, the US had raised its eyebrows. The US feared that Indo-US co-operation in space research would lead to US technologies finding their way in to Iran through India. The critics in the US noted that Iran was interested in expanding its nascent space and satellite programme. According to US theory, there are several

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dual use items that could assist Iran's missile development programme, is satellite capabilities.\textsuperscript{72} In fact, India's space research co-operation with Iran was being watched with suspicion by Washington, fearing that it would boost Iran's nuclear programme.\textsuperscript{73}

According to a \textit{Times of India Report}, "India and Iran have an ongoing space research programme."\textsuperscript{74} There are several reports from the USA, accusing India of assisting Iran's missile programme, as reflected by the March 2000 bill passed by the US House of Representatives. This measure authorized the US President to sanction India, Russia and China. India, along with China,\textsuperscript{75} was accused of helping Iran's missile programme. According to CIA reports, Iran obtained new chemical processing equipment from China and India in 1996. India was accused of helping to build a major plant at Qazvin near Tehran, to manufacture phosphorous pentasulphide. The German intelligence also claimed that three Indian Companies attempted to purchase equipment that is needed for the manufacture of Sarin and Tabun gases from German Companies and traced the end user to Iran. In fact, according to the Indian sources, the equipment was required from Germany to establish fertilizer factories. However, the American theory pointed towards the making of chemical weapons!\textsuperscript{76}

\textsuperscript{73} Strategic Assessments, Vol. 8, No.3, Nov. 2005.
\textsuperscript{74} Times of India, Feb. 1, 2003.
\textsuperscript{75} Bloomberg News, March 2, 2000.
If one looks at the nature of Indo-Iranian relations, one should accept the fact that India’s relations with Iran cannot be reduced to India’s energy requirements. India also has its aspirations in Central Asia as a centre for its power projection. In this way, Iran is considered to be its gateway to Central Asia and hence its relationship with Iran is an important plank of its foreign policy. Hence India’s role in Iran cannot be seen in isolation with its relations with Central Asia, including Afghanistan.

In the coming years, India cannot reduce its foreign policy to mere hydrocarbon politics. It has to establish its links with not only Iran but also with USA, Iran, Russia and the immediate neighbors. Israel, in recent years, has become one of the largest suppliers of arms and defense technology. India and Israel have also started joint ventures in anti-terrorist activities.

In fact, India has to find ways of continuing the USA, Iran and Israel “marginally satisfied” by giving various assurances that its relationship with one will not affect its friendship with the other. In practice, India will have to be careful to assess each other’s red lines and act with caution. While India understands that it needs USA and even Israel, India also believes that these states need India and this belief gives India confidence that it can sustain these relationships simultaneously. In fact, it is in India’s interests to choose nuclear co-operation with Washington over hydrocarbons from Iran. What they do not realize is that a country of India’s strength has the political and diplomatic ability to get both.77

India claims that it championed Iran's cause and worked assiduously for a just resolution given Iran's equities are probably more true than false and Iran would be wise to appreciate this. In fact, in the present juncture, Iran needs the support of States like India more than ever as the international community decides how it will handle Iran's non-compliance with the IAEA. Because India's relations with Iran are likely to remain a high priority for New Delhi. The United States needs to think through the regional and extra regional implications of the Indo-Iranian relationship.

India is also making bold moves in the region at a time when its nuclear-armed nemesis has been unable to counter them. Even though Pakistan is an important partner in the global war on terrorism it is also understood to be part of the global war on terror problem. Pakistan has in fact, alienated several Central Asian republics by its support to Taliban and Islamic militancy. Pakistan has also come to learn that it cannot take China for granted. In the 1999 limited aims conflict between India and Pakistan, in the Kargil-Dras sectors, China essentially sided with India.\(^{78}\) India has continued to consolidate its relations with Beijing and has even held military exercises with China.

In fact, Pakistan has real reasons to worry. India has become Afghanistan's closest ally in the region after the fall of Taliban.

\(^{78}\) India Daily, Aug. 26, 2005.
Thus, it is interesting and significant to note that the Indo-Iranian relations in the late 90’s of the last century and in the 21st century has entered a new phase when both the countries have extended their cooperation in the context of a third century. In the current context, central Asia becomes crucial to the Indo-Iranian commercial and technical cooperation.