CHAPTER - VI

INDO IRANIAN TRADE AGREEMENTS

ORIGIN AND GROWTH OF INDO-IRANIAN TRADE AGREEMENTS:

From a period prior to the seventh century B.C. and far ages afterwards there is a evidence of relations between Persia and India through trade, especially early commerce between India and Babylon which, it is believed, was largely via Persian Gulf. From sixth century onwards direct contacts grew through the campaigns of Cyrus and Dairius. After Alexander conquest Iran was for many centuries under Greek rule. Contact with India continued and Ashoka's buildings, it is said, were influenced by the architecture of Persepolis.¹

Throughout the history between India and Iran, the Pahalvi regime happens to be the golden period for Indo-Iranian trade relations. The Shah of Iran first visited India in 1956 and again in 1969 and 1974 and 1978. That enhanced the mutual relationship between the two nations.

India enjoys an important place in the foreign trade of Iran; even in the times long gone by, these trading relations between two countries were sufficiently developed. India exported to Iran and through that country to European markets, manufactured goods like lines, calicos, muslins, jewels, embroideries, ivory goods, woolen and silken manufactures. Most of the foreign

¹. Nehru, Jawaharlal, "Discovery of India", Page Nos. 112-113.
trade was controlled by Arabs and Iranian traders.

**INDO-IRANIAN TRADE STRUCTURE**

Iran has four types of trade relations with foreign countries. These are most favoured nation terms, Barter terms, Non-Barter terms, and general international practice terms. The Government in recent years has been favouring barter trade because it saves the country's foreign exchange and also because it ensures an equal increase in the volume of exports. Barter is the basis of Iran's trade with countries of East Europe. They are U.S.S.R., Czechoslovakia, Bulgaria, Hungary, Rumania, Poland and Yugoslavia. Pakistan and Turkey are among the "most favoured nations" as far as trade is concerned. Most other countries including North American countries and West European countries, have free or non-barter trade with Iran. Many Asian countries including India and Ceylon, have almost similar arrangements through under special agreements.

The foreign trade between India and Iran is governed by the Trade agreements which take place from time to time. The first trade agreement between the two countries was signed on 15th December 1954. It was decided to expand the trade between the two countries on the basis of mutual advantages, keeping in view the requirements of each other in context of their developing

1. Gupta, Rajnarayan, "Iran - An Economic Study", Indian Institute, Page No. 75.
2. Iran, Ministry of Information, Teheran, Aug. 1969, Page No. 239.
economies. The agreement stressed on the payments by freely convertible currencies acceptable to both countries. The two Governments agree to accord, subject to their respective laws and regulations, reasonable facilities for the holding of Trade Fairs and exhibitions. The agreement shall remain in force for a period of five years. Thereafter, it shall be extended automatically from year to year unless a notice of termination or a request for a new agreement in writing is given by either side.¹

On June 22, 1969, India and Iran made an agreement for setting up a joint venture in Iran for the production of Amonia, which was tended to be utilised for the fertilizer factory at Paradeep. India was ready to import 2,00,000 tonnes of Amonia.

Indo-Iranian cooperation in the technical and engineering fields is expanding rapidly, concrete evidence of this being Indian participation in the offshore oil exploration of Iran and Iranian collaboration in the construction of an oil refinery at Madras.² On January 13, 1969, joint Indo-Iranian Commission was announced to implement specific schemes of collaboration between the two countries. It will also increase the volume of trade between the two countries.

¹. Directorate of Exhibition & Commercial Publicity, Ministry of Commerce, Govt. of India, New Delhi, 1976, Page No. 289.
India and Iran further signed agreement on trade on 15th February 1970 for joint industrial ventures. India will buy from Iran 10,00,000 tonnes of liquid Ammonia over seven years from 1972 at price claimed to be the lowest offered so far such a quality. India will also import from Iran $ 54 million worth of phosphoric acid. India will also buy sulphur from Iran and the quantity in initial stages will be 90,000 tonnes and in 1971 the quantity will be 1,00,000 tonnes, Iran will import 492 Railway wagons valuing $ 5 million. Foreign exchange resources will be used to correct the imbalances.

India also agreed with Iran for avoidance of double taxation of income of enterprises of the two countries operating air-craft in international traffic. The agreement provides for exemption of the income of air-craft enterprises for earlier years.

On 7th October, 1973, an agreement for the expansion of cultural ties was signed. It provides for cooperation between the two countries in the fields of science, culture, exchange of teachers and students and sports. It also provides for collaborative programmes for archaeological field work, cooperation between their respective libraries and museums in respect of exchange of scripts and seminars of scholars and senior teachers to evaluate human values.

There is an agreement between the two countries for following sectors.
India and Iran made an agreement for the supply of crude oil to India for next five years on 22nd Feb. 1974. Iran will provide necessary credit to cover import liabilities. It will provide credit worth $300 million for development. Iran will supply 1 million tonnes of crude oil per year to India for next five years. This supply is in addition to present supply of 2.8 million tonnes a year for Madras Refinery. India will have to pay in cash for only a small portion of additional crude supplies. The rest will be available against deferred payments at low interest rate. There will be no repayment for first five years. Repayment will start in the sixth year and will be spread over five years in equal annual instalments. The rate of interest will be 2.5 percent over the five year period the credit will amount to $400 million.

<table>
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<tr>
<th>YEAR</th>
<th>QUANTITY IN MILLION TONNES</th>
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<tr>
<td>1967</td>
<td>1 M.T.</td>
</tr>
<tr>
<td>1974</td>
<td>2.8 M.T. (For Madras Refinery)</td>
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<tr>
<td>1979</td>
<td>2.6 M.T.</td>
</tr>
<tr>
<td>1984-85</td>
<td>2.5 M.T.</td>
</tr>
<tr>
<td>1985-86</td>
<td>1.5 M.T.</td>
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</table>

In October 1975 O.P.E.C. countries increased the price of crude oil by 10% which affected the foreign trade of developing countries. India was also affected severely and she was bound to increase the prices of
kerosene oil, high speed diesel and cooking gas. New barrel of crude oil was now 1 $ dearer to India. So, India developed her efforts to increase search for oil in Bombay High and ultimately she was successful. Now at present the prices of crude oil are down due to various reasons and in 1984-85 we can save 80 to 100 crore of rupees in the form of foreign exchange. In 1985-86 India is proposed to import 1.5 M.T. of crude oil from Iran out of 10 M.T. of total import for the period.

**RAJASTHAN CANAL:**

This project was launched in 1959 with the help of Iran. It was proposed to complete the project by 1976 with the estimated cost of Rs.244 crores but due to paucity of funds the pace of construction was very slow. Its first stage was not completed at the second visit of Shah of Iran. This canal is 445 KMs. long and it was finalised in the beginning that India will return the loan of Iran in terms of yearly supply of certain quantity of foodgrains. In 1978 total amount spent on this project was Rs.176 crores only. The canal was designed to distribute about 8 million acre feet of surplus water of Ravi and irrigate the northern desert belt of Rajasthan. Main feeder is completed upto 183 KMs. and distributing canals upto 3,000 KMs. After the completion of 2nd stage of the canal 14.5 lakh hectares land will be irrigated. It is most likely that IIInd phase of this canal will be completed in 1986.

**ONGC’S OIL EXPLORATION:**

India and Iran’s first joint venture was
ONGC. Oil exploration in Iran for which agreement was signed between the countries in 1965. Two well-known companies were associated with this venture. They were Philip Petroleum of America and E.N.I. of Italy. This joint venture got success in 1967 when oil was struck from offshore drilling. India got 1 M.T. crude oil from Iran valued at 12 crores rupees; another oil discovery was made in 1975 and production from there started in 1977. The oil production in Iran with O.N.G.C's. collaboration continued up to 1979 when it was stopped due to the political situation there.

POWER EQUIPMENTS:

Iran is keen to purchase power equipments such as transformers, generators, turbines, transmission towers, etc. from India.

NUCLEAR AGREEMENT:

An agreement on the peaceful use of nuclear energy was signed between Iran and India in Bombay on Feb. 25, 1977. The agreement an exchange of technical and scientific know-how as well as scientist technical and scientific know-how as well as scientist technical and scientific know-how would mainly be in the fields of reactor technology and equipment for reactors. India will train Iranian scientists for nuclear purpose.

KUDREMUKH PROJECT:

On 4th November 1975 India and Iran signed an agreement on Kudremukh Project. Iran promised to give 630 million $ for this purpose. On return India will
export iron ore to Iran from Sept. 1980 to 2000 i.e., twenty years. The price of the ore will be 3,000 crores dollars i.e., 24,000 crores rupees. India started working on this prestigious project, but due to revolution in Iran in 1979, the new Government of Iran refused to pay the amount. The future of this Project was bleak, but on 13th June 1981 an agreement was reached between the two Governments and now Iran will pay the balance of its contribution towards the funding of $630 million project. So far Iran has paid only 225 million dollars and had withheld the remaining 375 million dollars. The Project was completed in 1980; it had to remain unutilised as there was nobody to buy the concentrate. Iran has also agreed to purchase 4.5 million tonnes of iron ore concentrate beginning from October 1984. From the Project which was set up exclusively for exporting iron ore to Iran. The Kudremukh Project was souring Indo-Iranian relations to some extent but the agreement removes the irritant. India and Iran set up a joint commission on 21st July 1983 to diversify the trade relations and to reduce dependence on super powers. According to Mr. Ali Akbar Velayati, Iranian Foreign Minister, India is in outstanding position for developing trade ties within the third world countries. India could provide to Iran technological, scientific and other assistance on a long term basis. Iran had only 7 percent trade with third world countries. Sometimes ago but this had grown to 27 percent. P.V. Narasimha Rao, the then External Affairs Minister, said that there was great scope for diversifying and enriching our relations.
for common welfare. Iran also admitted to correct the imbalance of trade, which favours Iran ten to one, to be corrected to the extent possible. Iran has agreed to accept rupees for oil from India to a substantial extent, in an effort to correct the imbalance in bilateral trade. Under Asian clearing union, India would maintain an account in rupees for payment to Iran against oil supplies for 60 days, during which Iran would have the option to utilise these rupees for purchases from India.

**JEEP KITS CONTRACT:**

India and Iran signed a contract on 16th July 1984 for the supply of 10,000 jeep kits in C.K.D. (Complete knocked down). Indian company Mahindra and Mahindraa will export these kits to Iranian firm Pais Khudro. The value of these kits is ₹41.6 crores. Previously, India had supplied 15,000 jeep kits in C.K.D. over the last few years.

In August 1984, high level industrial mission of the Association of Indian Engineering Industry (A.I.E.I.) went to Iran to give further boost to the development of Indo-Iranian Industrial Cooperation. A.I.C.I. during April-July, 1984, signed orders worth ₹470 million for exports to Iran covering sectors like automobile, automotive components, auto parts and foodgrains. Although engineering exports have grown from ₹23.8 crores in 1978-79 to ₹70 crores in 1983-84, the visit of Iranian delegation in February, 1985, is

expected to cement relations further. Among major items identified having higher potential for exports include auto vehicles, bicycles, tools, diesel engines, agricultural machines and textile equipment and cement plant equipment.

IRAN'S TRADE AGREEMENT WITH OTHER COUNTRIES:

Iran has trade agreement with other countries beside India. West Germany is a major trading partner of Iran. On April 21, 1961, both the countries signed a Trade Agreement regarding investment guarantee. West Germany will finance for projects in Iran.

Pakistan also made Trade Agreement with Iran in 1962 for the export of jute, paper and Iran will supply cumin gum and dried fruits to Pakistan. Pakistan and Turkey are treated as "Most Favoured Nations" as far as trade is concerned. The total value of trade between Pakistan and Iran was 15,000,000 Pakistan rupees. Being a Islamic country Pakistan gets special treatment from Iran while India is not in that category.

Iran also had Trade Agreement with Poland in 1962 with the condition that Poland will take goods to a value of at least one-third of its purchases of Iranian cotton. Iran will export dried fruits, wool, goats hair, carpets, etc. while Poland will export machinery and manufactured goods to Iran.

U.S.S.R. also made a Trade Agreement with Iran in 1962 for importing Green Raisins, Carpets, Henna,
cotton and oil seeds while U.S.S.R. will export spare parts of lorries, cars, machinery, linen, rayon fabrics, pharmaceuticals, etc. In September 1970, Iran signed 5 year Trade Agreement with U.S.S.R. for the exchange of goods valued $1,000 million. Iran will supply goods of a value of $720 million against the supply of Soviet items of a value of $318 million. The difference between the two sums accounted for by Iran's repayment of loans and services already rendered.

Czechoslovakia made a Trade Agreement with Iran to purchase goods worth $40 million. Iran will export 100,000 tonnes of sulphur to Czechoslovakia which will provide loan to establish second machine tool plant at Tabriz.

U.S.A. was dominant trading partner in Reza Shah's period and helped Iran to in search of oil with Italy and India later joined in this venture. Trade relations between the two countries reached to low level after Iranian revolution as American President Mr. Carter seized the Iranian assets in American Banks valuing more than $8,000 million due to held up of 52 American hostages in Teheran since Nov. 4, 1979. The Islamic Government of Iran stopped all trade relations with U.S.A., which was once major trading partner of that country. On 20th Jan, 1981, U.S.A. deposited $10,000 million in Iran's account at Bank of England in London.¹

In 1982 U.S.A. made slight improvement in its position than 1981, lifting its exports to Iran by $100 million, five times greater than exports in 1980.\(^1\)

After Islamic revolution in Iran, foreign trade was shattered for few months but later got the momentum and Iran made new Trade Agreements with German Democratic Republic, Turkey, Yugoslavia, and Bulgaria. The major change after the revolution is that Iran's trade with the western super powers had dropped to nil. Now she puts more emphasis on establishing better economic relations with the third world, non-aligned and independence seeking countries.

After revolution Iran and Turkey made an agreement for $101.5 millions. The main items of supply from Turkey will be machinery for cement plant, machinery for lime crushing in exchange for 1,000 tonnes of crude oil per day.

Iran & Yugoslavia also signed Trade Agreement in Nov., 1982, for $25 million per year. Yugoslavia will purchase 1.5 million tonnes of crude oil from Iran and non-oil products. Brazil also made Barter Trade Agreement with Iran recently.

Going through all these Trade Agreements, it is clear that only Pakistan and Turkey are placed well due to Islamic country and with remaining countries. Iran

\(^1\). Quarterly Economic Review of Iran, Annual Supplement, 1982, Teheran, Page No. 16.
insists on barter agreements, i.e. oil. For other goods, India's condition is very bad in this regard as she has to pay all her import bill only in the form of precious foreign exchange which is limited. This condition puts India on unfavourable balance of payments condition. Only few years back India got the facilities of rupee payment through Asian clearing union.

FOREIGN TRADE RELATIONS WITH O.P.E.C. COUNTRIES:

INDIA AND O.P.E.C.:

O.P.E.C. is an organisation of Petroleum exporting countries consists of Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, U.A.E. and Veneguela. These countries have monopoly over the crude oil production, the only energy source of the modern world.

In December 1973, O.P.E.C. increased the price of crude petroleum, the manifold. This increase caused serious disturbances in the world economy. Though this rise of price affected all the countries, but developing countries like India were affected severely. The price of crude has been subject to periodic upward revisions for the last seven years by O.P.E.C. This rising price of petroleum, therefore, affected the terms of trade, and consequently balance of payments of a number of countries including India.
### Table No. 6.2

**GROWTH OF INDIA'S EXPORTS TO O.P.E.C.**

(₹, crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>India's total exports</th>
<th>Exports to O.P.E.C.</th>
<th>% share of O.P.E.C. in total exports</th>
</tr>
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<tbody>
<tr>
<td>1968-69</td>
<td>1354.9</td>
<td>79.56</td>
<td>5.88</td>
</tr>
<tr>
<td>1969-70</td>
<td>1408.70</td>
<td>80.03</td>
<td>5.68</td>
</tr>
<tr>
<td>1970-71</td>
<td>1524.79</td>
<td>92.74</td>
<td>8.08</td>
</tr>
<tr>
<td>1971-72</td>
<td>1603.15</td>
<td>75.24</td>
<td>4.69</td>
</tr>
<tr>
<td>1972-73</td>
<td>1964.39</td>
<td>92.95</td>
<td>4.73</td>
</tr>
<tr>
<td>1973-74</td>
<td>2518.34</td>
<td>186.39</td>
<td>7.40</td>
</tr>
<tr>
<td>1974-75</td>
<td>3323.31</td>
<td>496.67</td>
<td>14.95</td>
</tr>
<tr>
<td>1975-76</td>
<td>4025.92</td>
<td>615.76</td>
<td>15.29</td>
</tr>
<tr>
<td>1976-77</td>
<td>5129.06</td>
<td>681.34</td>
<td>13.28</td>
</tr>
<tr>
<td>1977-78</td>
<td>5407.9</td>
<td>670.28</td>
<td>12.39</td>
</tr>
<tr>
<td>1978-79</td>
<td>5726.3</td>
<td>704.75</td>
<td>12.31</td>
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The increased rate of growth of exports to O.P.E.C. undoubtedly resulted in the sustenance of export earnings of India in the context of rather stagnant world trade. Due to economic boom in the O.P.E.C., India was able not only to export more than what it would have, but also expanded exports of Turkey projects and consultancy exports. In fact, major contribution comes from this area. The most important indirect effect of the boom caused by the O.P.E.C. oil price hike has been increased employment opportunities for Indians, both skilled and unskilled, have been able to find employment.
The direct impact of this on balance of payments has been that these emigrant labourers started remitting to India. This swelled India's foreign exchange sources.¹

Oil being the foremost item among the imports of India, the organisation of Petroleum Exporting Countries (O.P.E.C.) has naturally emerged as a significant trade partner. In turn, India, also has bright possibilities to tap the emerging demand in the O.P.E.C. as the latter have enormous increase in the oil revenue. Moreover, there is no reason why India which is so well situated in terms of geographical proximity and her age old political, trade and economic relations with those countries should not be able to obtain a sizable share of the enormous developing expenditure, that is taking place there, more particularly in Saudi Arabia, U.A.E., Qatar, Kuwait, Iran, Iraq and Libya.²

India's exports to O.P.E.C. increased from $113 million in 1971 to $914 million in 1981, recording an increase of round 700 percent, while the exports of India to world have increased only by 270 percent from $2110 million to $7,844 million during the same period. India's exports to O.P.E.C. increased more rapidly than its exports to world. The percentage share of O.P.E.C. in India's total exports remained around 5 percent in the first three years and suddenly increased to 11.7 percent.

in 1974, reaching a maximum of 16.7 percent in the next year. From 1976 onwards, the share of O,P,E,C. showed a gradual decrease, barring the year 1980. Sudden increase in India's exports from 1974 onwards is due to the surpluses accrued to these countries. Iran remained as the major trading partner during the first six years and it is being replaced by Saudi Arabia in the latter years.

**TABLE No. 6.3.**

PERCENTAGE SHARE OF O.P.E.C. IN INDIA'S EXPORTS

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>5.3</td>
<td>5.2</td>
<td>5.4</td>
<td>11.7</td>
<td>16.7</td>
<td>14.0</td>
<td>13.6</td>
<td>12.8</td>
<td>11.7</td>
<td>12.2</td>
<td>12.2</td>
<td>11.9</td>
<td>12.5</td>
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</table>

**TABLE No. 6.4**

PERCENTAGE SHARE OF O.P.E.C. IN INDIA'S IMPORTS

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</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>9.3</td>
<td>11.2</td>
<td>12.8</td>
<td>25.3</td>
<td>19.8</td>
<td>20.4</td>
<td>23.4</td>
<td>21.6</td>
<td>22.4</td>
<td>21.6</td>
<td>18.4</td>
<td>28.1</td>
<td>28.6</td>
</tr>
</tbody>
</table>

**SOURCE:** Govt. of India, Economic Survey 1982-83 and 1983-84. Table 6.8, pp. 148-149.

During 1971-81 period, imports from O.P.E.C. increased from $230 million to $2,558 million, resulting in an increase of 1012 percent. India's imports from O.P.E.C. have increased more rapidly than the imports from the world. This is mainly due to the heavy dependence of India on O.P.E.C. for the import of petroleum and petroleum products (POL) which continued to remain the largest single item of imports.
India's balance of trade with O.P.E.C. was always adverse and has been increasing all through the period. Adverse balance of trade with O.P.E.C. is one of the important reasons for overall balance of payment difficulties of India in recent times. The O.P.E.C. countries, i.e. Iran, Iraq, Kuwait, Saudi Arabia and U.A.E. taken together account for total imports of ₹3,770 crores in 1981-82 i.e. 27.7 percent of total imports. India's exports with these countries were only ₹.980 crores in 1981-82, i.e. 12 percent of the total in 1982-83 our exports to O.P.E.C. increased to 12.5 percent and imports to 29.1 percent.

Recently O.P.E.C. countries have reduced their price of crude oil from 34 $ per barrel, a peak price to 29 $ per barrel in 1984. This reduction of prices has reduced the burden on India and developing countries as all these were facing acute crisis of foreign exchange. Now India purchases only limited quantity of crude oil through contract basis i.e. 10 M.Ts. to 13 M.Ts. and purchases rest from open market as spot rate price of crude oil is fluctuating from time to time. India has bow reduced her import of crude oil from Iran due to rise in the production of crude oil from Bombay high and other parts of the country.

The effect of Indo-Iranian trade agreements on O.P.E.C. country has affected the import of crude oil from O.P.E.C. countries. Iran has sufficient amount of crude oil, but she can only export to India or other countries according to their quota system. O.P.E.C. has
allotted certain quota to each country for export with fixed prices of crude oil. Iran has also reduced her price of crude oil and now exporting only 1.5 M.T. of crude oil to India as per agreement for 1985-86.