

# CRS Report for Congress

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## India-Iran Relations and U.S. Interests

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### Summary

India's growing energy needs and its relatively benign view of Iran's intentions will likely cause policy differences between New Delhi and Washington. Given a clear Indian interest in maintaining positive ties with Iran, New Delhi is unlikely to abandon its relationship with Tehran or to accept dictation on the topic from external powers. However, India-Iran relations are unlikely to derail the further development of close and productive U.S.-India relations on a number of fronts. See also CRS Report RL33529, *India-U.S. Relations*, and CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*. This report will be updated as warranted by events.

### Overview

A July 2005 Joint Statement resolved to establish a U.S.-India "global partnership" through increased cooperation on economic issues, on energy and the environment, on democracy and development, on non-proliferation and security, and on high-technology and space. U.S. policy is to isolate Iran and to ensure that its nuclear program is used for purely civilian purposes. India has never shared U.S. assessments of Iran as an aggressive regional power. India-Iran relations have traditionally been positive and, in January 2003, the two countries launched a "strategic partnership" with the signing of the "New Delhi Declaration" and seven other substantive agreements.<sup>1</sup> Indian leaders regularly speak of "civilizational ties" between the two countries, a reference to the interactions of Persian and Indus Valley civilizations over a period of millennia. As U.S. relations with India have grown both deeper and more expansive in the new century, some in Washington believe that New Delhi's friendship with Tehran could become a significant obstacle to further development of U.S.-India ties. However, India-Iran relations are unlikely to derail the further development of a U.S.-India global partnership. At the same time, given a clear Indian interest in maintaining positive ties with Iran — especially in the area of energy commerce — New Delhi is unlikely to abandon its relationship with Tehran or to accept dictation on the topic from external powers.

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<sup>1</sup> Declaration text at [<http://meaindia.nic.in/declarestatement/2003/01/25jd1.htm>].

Many in Congress voice concern about India's relations with Iran and their relevance to U.S. interests. Some worry that New Delhi's policies toward Tehran's controversial nuclear program may not be compatible with those of Washington. There are further U.S. concerns that India plans to seek energy resources from Iran, thus benefitting financially a country the United States is seeking to isolate. Indian firms have in recent years taken long-term contracts for purchase of Iranian gas and oil, and India supports proposed construction of a pipeline to deliver Iranian natural gas to India through Pakistan. The Bush Administration has expressed strong opposition to any gas pipeline projects involving Iran, but top Indian officials insist the project is in India's national interest.

During an April 2006 hearing of the Senate Foreign Relations Committee to discuss proposed U.S.-India civil nuclear cooperation, Secretary of State Condoleezza Rice was asked about New Delhi's relationship with Tehran. Of immediate interest to some Senators was an American press report on Iranian naval ships visiting India's Kochi port for "training." Indian officials downplayed the significance of the port visit, and Secretary Rice challenged the report's veracity.<sup>2</sup> She did, however, state that, "The United States has made very clear to India that we have concerns about their relationship with Iran." Such concerns include the proposed gas pipeline and India's initial vote at the IAEA.<sup>3</sup>

## Strategic/Political Relations

According to the Indian Ministry of External Affairs, India and Iran enjoy "historical ties." In its most recent annual report, the Ministry claims, "The year 2004-2005 saw further deepening and consolidation of India-Iran ties," with "increased momentum of high-level exchanges" and "institutional linkages between their National Security Councils." It notes that New Delhi and Tehran have agreed to "join hands" in the reconstruction of Afghanistan and to support the development of "alternative access routes" to that country (bypassing Pakistan) via Iran's Chahbahar port. Iranian leaders, always looking for new allies to thwart U.S. attempts to isolate Iran, echo the positive sentiments and say that India's current relations with the United States will not weaken their own ties with New Delhi.<sup>4</sup>

Positive and potentially deepening India-Iran relations present a challenge to U.S. policymakers. There are signs that, in the wake of the July 2005 launch of a U.S.-India "global partnership" and plans for bilateral civil nuclear cooperation, India is bringing its Iran policy into closer alignment with that of the United States. There is in India a sizeable constituency urging resistance to any U.S. pressure that might inhibit New Delhi-Tehran relations and decrying any Indian policies which prioritize relations with the United States in disregard of India's national interests. While top Indian leaders state that friendly New Delhi-Tehran ties will continue concurrent with — or even despite — a

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<sup>2</sup> Vivek Raghuvanshi and Gopal Ratnam, "Indian Navy Trains Iranian Sailors," *Defense News*, Mar. 27, 2006; "Rice Downplays India's Iran Links," CNN.com, Apr. 6, 2006.

<sup>3</sup> Transcript, "Senate Foreign Relations Committee Holds Hearing on U.S.-India Atomic Energy Cooperation," Apr. 5, 2006.

<sup>4</sup> Indian Ministry of External Affairs, *Annual Report 2004-2005*; "Iran Sees Good Ties With India Despite India-US Nuclear Deal," Agence France Presse, Mar. 30, 2006.

growing U.S.-India partnership, some observers see such rhetoric as incompatible with developments over the past year.<sup>5</sup>

## Indian Policy Toward Iran's Nuclear Program

The Indian government has made clear that it does not wish to see a new nuclear weapons power in the region and, in this context, it has aligned itself with international efforts to bring Iran's controversial nuclear program into conformity with Non-Proliferation Treaty and IAEA provisions. At the same time, New Delhi's traditional status as a leader of the "nonaligned movement," and its friendly links with Tehran, have presented difficulties for Indian policymakers. There also exist in New Delhi influential leftist and opposition parties which maintain a high sensitivity toward indications that India is being made a "junior partner" of the United States. These political forces have been critical of proposed U.S.-India civil nuclear cooperation and regularly insist that India's closer relations with the United States should not come at the expense of positive ties with Iran. The current Indian National Congress-led coalition government has thus sought to maintain a careful balance between two sometimes conflicting policy objectives. India's main opposition, the Bharatiya Janata Party, has voiced its approval of the present government's policy toward Iran's nuclear program.

There were reports in mid-2005 that India would oppose bringing Iran's nuclear program before the U.N. Security Council and was likely to abstain on relevant IAEA Board votes.<sup>6</sup> However, on September 24, 2005, in what many saw as the first test of India's position, New Delhi did vote with the majority (and the United States) on an IAEA resolution finding Iran in noncompliance with its international obligations. The vote brought waves of criticism from Indian opposition parties and independent analysts who accused the New Delhi government of betraying a friendly country by "capitulating" to U.S. pressure. New Delhi later defended the vote in the interests of "allowing time for further negotiations" and being in India's national interest.

In January 2006, the U.S. ambassador to India explicitly linked progress on proposed U.S.-India civil nuclear cooperation with India's upcoming vote, saying if India chose not to side with the United States, he believed the U.S.-India initiative would fail in the Congress. New Delhi rejected any attempts to link the two issues, and opposition and leftist Indian political parties denounced the remarks as a serious affront to India's sovereignty. Yet, on February 4, India again voted with the majority in referring Iran to the Security Council, even as it insisted that its vote should not be interpreted as detracting from India's traditionally close relations with Iran. Overt U.S. pressure may have made it more difficult for New Delhi to carry out the policy it had already chosen.<sup>7</sup> The United States later expressed pleasure with India's vote. Some independent observers see India's IAEA votes as demonstrating New Delhi's strategic choice to

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<sup>5</sup> "India and Iran: End of an Alliance," *Jane's Intelligence Digest*, Oct. 7, 2005; Amit Baruah, "Partnership With Iran in Trouble," *Hindu* (Madras), May 14, 2006.

<sup>6</sup> Steven Weisman, "India Balks at Confronting Iran, Straining Its Friendship with U.S.," *New York Times*, Sep. 15, 2005.

<sup>7</sup> Neelesh Misra, "India Says Vote Against Iran at Nuclear Agency Not Under U.S. Pressure," *Associated Press*, Sept. 24, 2006.

strengthen a partnership with Washington even at the cost of its friendship with Tehran. In July 2006, the House passed legislation to enable proposed U.S. civil nuclear cooperation with India (H.R. 5682). The bill contains language on securing India's cooperation with U.S. policy toward Iran. An amendment seeking to make such cooperation binding was defeated by a vote of 235-192.<sup>8</sup>

## **Weapons of Mass Destruction-Related Relations**

In recent years there have been occasional revelations of Indian transfers to Iran of technology that could be useful for Iran's purported weapons of mass destruction (WMD) programs. These transfers do not appear to be part of an Indian-government-directed policy of assisting Iran's WMD, but could represent unauthorized scientific contacts that have resulted from growing India-Iran energy and diplomatic ties. Some Indian persons have been sanctioned by the Bush Administration under the Iran Non-Proliferation Act (INA, P.L. 106-178). According to determinations published in the Federal Register, in 2003 an Indian chemical industry consultancy, Protech Consultants Private Ltd., was sanctioned under the Iran-Iraq Arms Nonproliferation Act (P.L. 102-484). In a September 2004 determination, two Indian nuclear scientists were sanctioned under the INA, Dr. Chaudhary Surendar and Dr. Y.S.R. Prasad. The two formerly headed the Nuclear Power Corp. of India and allegedly passed to Iran heavy-water nuclear technology.<sup>9</sup> Surendar denied ever visiting Iran and sanctions against him were ended on December 21, 2005. In that same December determination, two Indian chemical companies (Sabero Organic Chemicals Gujarat Ltd. and Sandhya Organic Chemicals PVT, Ltd.) were sanctioned under the INA for transfers to Iran. In late July, it was reported that two additional Indian firms are to come under sanction for missile-related transactions with Iran.<sup>10</sup>

## **Defense and Military-to-Military Relations**

India and Iran have established steady but relatively low level defense and military relations since the formation of an Indo-Iran Joint Commission in 1983, three years after the start of the Iran-Iraq war. There is no evidence that India provided any significant military assistance to Iran during that war, which ended in 1988. Iran reportedly received some military advice from Pakistan during the conflict. Following the war, Iran began rebuilding its conventional arsenal with purchases of tanks, combat aircraft, and ships from Russia and China. No major purchases from India were reported during this time. However, Iran reportedly turned to India in 1993 to help develop batteries for the three Kilo-class submarines Iran had bought from Russia. The submarine batteries provided by the Russians were not appropriate for the warm waters of the Persian Gulf, and India had substantial experience operating Kilos in warm water.

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<sup>8</sup> H.R. 5682 would make it the policy of the United States to "Secure India's full and active participation in United States efforts to dissuade, isolate, and, if necessary, sanction and contain Iran for its efforts to acquire weapons of mass destruction ...." Enabling legislation passed by the Senate Foreign Relations Committee contains no language on Iran. See also CRS Report RL33561, *U.S.-India Nuclear Cooperation: A Side-By-Side Comparison of Current Legislation*.

<sup>9</sup> John Larkin and Jay Solomon, "India's Ties With Iran Pose Challenge for U.S.," *Wall Street Journal*, Mar. 28, 2005.

<sup>10</sup> "US Sanctions Two India Firms for Transfers to Iran," Reuters, July 27, 2006.

There have been expectations that Iran-India military ties would further expand under the January 2003 New Delhi Declaration, in which the two countries “decided to explore opportunities for cooperation in defense and agreed areas, including training and exchange of visits.”<sup>11</sup> Some experts see this as part of broad strategic cooperation between two powers in the Persian Gulf and Arabian Sea, but the cooperation appears too sporadic and low-level to represent a major strategic alliance. Instead, the cooperation appears to represent a manifestation of generally good Indo-Iranian relations and an opportunity to mutually enhance their potential to project power in the region. India had reportedly hoped the Declaration would pave the way for Indian sales to Iran of upgrades of Iran’s Russian-made conventional weapons systems. Major new Iran-India deals along these lines have not materialized to date, but Iran is said to still seek Indian advice in operating Iran’s missile boats, refitting of Iran’s T-72 tanks and armored personnel carriers, and upgrades for its MiG-29 fighters.<sup>12</sup> Under the Declaration, the two have held some joint naval exercises, most recently in March 2006. The first joint exercises were in March 2003. The recent exchange prompted some congressional criticism, but both the Bush Administration and Indian officials insist the exchange emphasized mutual sports and entertainment activities rather than military technique.

## Economic and Energy Relations

India’s External Affairs Ministry reports that India-Iran commercial relations are dominated by Indian imports of Iranian crude oil, accounting for roughly 85% of Indian imports from Iran each year. The value of all India-Iran trade in the fiscal year ending March 2005 increased by 36% over the previous year, reaching more than \$1.6 billion (by comparison, U.S.-India trade was valued at about \$27 billion in 2005).<sup>13</sup> Iran possesses the world’s second-largest natural gas reserves, while India is among the world’s leading gas importers. With a rapidly growing economy, India is building energy ties to Iran, some of which could conflict with U.S. policy and the Iran-Libya Sanctions Act (ILSA). ILSA requires certain sanctions on investments over \$20 million in one year in Iran’s energy sector. It expires on August 5, 2006, but there is pending legislation to extend it (S. 2657; H.R. 5877), as well as to modify it (S.333 and H.R. 282). Under a reportedly finalized 25-year, \$22 billion deal, the state-owned Gas Authority of India Ltd. (GAIL) is to buy 5 million tons per year of Iranian liquified natural gas (LNG). To implement the arrangement, GAIL is to build an LNG plant in Iran, which Iran does not now have. Some versions of the deal include development by GAIL of Iran’s South Pars gas field, which would clearly constitute an investment in Iran’s energy sector. India currently buys about 100,000-150,000 barrels per day of Iranian oil, about 7.5% of Iran’s oil exports. It is also widely reported that Indian refineries supply a large part of the refined gasoline that Iran imports. Gasoline is heavily subsidized and sells for about 40 cents per gallon, and Iranian refining capacity is insufficient to meet demand. Such direct purchases and sales of petroleum product are not generally considered violations of ILSA.

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<sup>11</sup> The State Department was seen as complacent, saying New Delhi had reassured Washington that the agreement “doesn’t involve military and technical assistance” (“Iran-India Pact Not a Security Concern, State Department Official Says,” *Inside the Pentagon*, Feb. 13, 2003).

<sup>12</sup> “India-Iran Military Ties Growing,” *Strategic Affairs*, June 16, 2001.

<sup>13</sup> Indian Ministry of Commerce and Industry, *Annual Report 2005-2006*.

A major aspect of the Iran-India energy deals is the proposed construction of a gas pipeline from Iran to India via Pakistan, with a possible extension from Pakistan to China. Some of the Indian companies that reportedly might take part in the pipeline project are ONGC, GAIL, Indian Oil Corporation, and Bharat Petroleum Corporation.<sup>14</sup> Iran, India, and Pakistan have repeatedly reiterated their commitment to the \$4-\$7 billion project, which is tentatively scheduled to begin construction in 2007 and be completed by 2010. Pakistani President Musharraf said in January 2006 that there is enough demand in Pakistan for Iranian gas to make the project feasible, even if India declines to join it. During her March 2005 visit to Asia, Secretary of State Rice expressed U.S. concern about the pipeline deal. Other U.S. officials have called the project “unacceptable,” but no U.S. official has directly stated that it would be considered a violation of ILSA. Successive administrations have considered pipeline projects that include Iran as meeting the definition of “investment” in ILSA. During his March 2006 trip to India and Pakistan, President Bush acknowledged Pakistan’s need for gas, appearing to suggest he would not oppose the pipeline, but Administration officials later said that there had been no change in Administration opposition to it.<sup>15</sup>

New Delhi had concerns that its positive IAEA Board vote on a resolution referring Iran’s nuclear activities to the U.N. Security Council would cause Iran to retaliate against India by excluding it from the pipeline deal. However, to date, Iran has continued to proceed on the project. A House resolution introduced in July 2005 (H.Res. 353) would express support for the gas pipeline project as a facilitator of India-Pakistan peace.

## Cooperation on Afghanistan

India and Iran have cooperated to secure their interests in Afghanistan. Iran feared the Sunni Islamic extremism espoused by the Taliban regime as a threat to Iran’s Shiite sect. India saw the Taliban as a manifestation of Islamic extremism that India is battling in Kashmir, and which has carried out terrorist attacks in New Delhi. India and Iran both supported Afghanistan’s minority-dominated “Northern Alliance” against the Taliban during 1996-2001 (in contrast to Pakistan, which supported the Taliban). Both countries supported the U.S. military-led ousting of the Taliban regime and both seek to prevent a return of a Taliban or Taliban-style regime. India and Iran have each separately given substantial economic aid to the U.S.-backed government of Hamid Karzai. Iran is assisting Afghanistan’s economic reconstruction through road building and other construction in the areas bordering Afghanistan. India is helping reconstruct well-known schools and buildings in Kabul (including Darulaman Palace that will be the new parliament building) and assisting with road construction in eastern Afghanistan. It is perhaps because of Indo-Iranian cooperation in stabilizing Afghanistan that Tajikistan — a Persian-speaking Central Asian state bordering Afghanistan — allows Indian combat aircraft to use its Farkhor air base. There are reports that India will soon also be allowed to use Tajikistan’s Aini air base as well.<sup>16</sup>

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<sup>14</sup> See Jay Solomon and Neil King, “U.S. Tries to Balance Encouraging India-Pakistan Rapprochement With Isolating Tehran,” *Wall Street Journal*, June 24, 2005, p. A4.

<sup>15</sup> See CRS Report RS20871, *The Iran-Libya Sanctions Act*.

<sup>16</sup> “IAF to Station MiG-29s in Tajikistan,” *Times of India* (Delhi), Apr. 20, 2006.