

India to persuade Iran to accept rupee payment

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The government is banking on its long economic and political partnership with Iran to start talks on establishing a rupee-based trade mechanism, similar to an earlier one between both nations.

The move has been triggered by Delhi's wariness of Beijing's growing focus on capturing export markets in Iran. And, on uncertainty over how crude oil import from Iran will be paid for if the current currency of choice, the euro, is also hit by the recent sanctions, a senior commerce ministry official said. The sanctions come when major Indian exporters from sectors such as textiles and engineering are heading to Tehran for making deals with local buyers.

Nearly a week after US President Donald Trump pulled out of a landmark deal with Iran signed in 2015, the regime in Tehran is also keen on speedy talks, said senior government sources here, as the new sanctions are projected to badly hurt its economy.

The earlier rupee payment mechanism set up in 2012 had mandated that for oil imported from Iran, a part of the payment by India would be retained in an Indian bank. This could be used by Iran to pay for its import from India. However, hardening sanctions later made even this difficult, with money transfer to Indian exporters through the informal route using UCO Bank fell apart.

India's total trade with Iran was \$12.4 billion in the first 10 months of 2017-18, as compared to nearly \$12.9 billion the previous year. The trade was dominated by crude oil import, \$8 billion worth of which reached India in FY18.

Germany and France have come out in continuing support for the earlier deal with Iran, junked by Trump. This has, for now, assured Indian oil majors that the euro can be used to pay for oil shipment. Even so, with the chance of

INDIA'S IRANONOMICS

Top imports

Apr-Feb, 2017-18 (\$ million)	
Crude oil	8,312.21
Fertilisers	512.51
Organic chemicals	403.66
Inorganic chemicals	244.00
Plastics and articles made from them	229.44

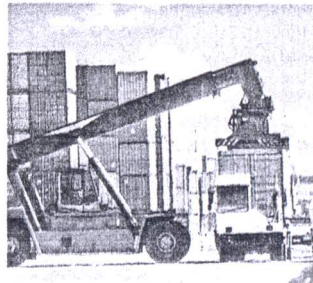
Top exports

Apr-Feb, 2017-18 (\$ million)	
Rice	850.72
Organic chemicals	135.55
Iron & steel	122.93
Coffee, tea & spices	117.60
Man-made staple fibres	109.02

Source : Commerce Ministry

global crude prices shooting up and thereby raising the cost of business, India is keen on working out other methods of payment at the earliest, a senior commerce department official said. Last month, global benchmark Brent hit \$75 a barrel for the first time since November 2014.

"Key importers of Iranian oil are China and India, accounting for 1.4 million barrels/day, a third of Iran's total production. China might hasten the use of its yuan to continue importing from Iran; India might resort to looking for waivers from the US or going back to using a mix of barter and gold to settle payment," said Taimur Baig, chief economist at DBS Bank. Also, on Thursday, China announced the opening of a direct train line to the Iranian capital, for cargo shipment. China and Iran are each other's largest export partner. Figures from the Iranian Customs Administration shows China exported \$10.2 billion worth



TRADE DETAILS



of goods, mostly commodities to Iran in the first 10 months of 2017-18. The rise in Chinese export to Iran was 21 per cent over this period, compared with only a 1.4 per cent growth for Indian export in the same period. In non-oil trade, Indian import from Iran is dominated by urea. In 2017-18, of its total of six mt import, a third was from Iran. Export from India is concentrated in commodities such as rice and tea, among others.

Issues

A majority of this trade continues to be funnelled through the United Arab Emirates since the past two decades. Traders generally pay in the Emirates' currency, the dirham. The latest set of sanctions have thrown up confusion over whether the UAE, a close US ally, would continue to allow the earlier system. The financial centres of Dubai and Abu Dhabi in UAE remain integral to Indo-Iran trade since procedural complications

have held back direct trade, despite both governments having multiple talks to straighten procedures.

"Exporters continue to face difficulties over the lack of loan facilities from banks on this route, inadequate insurance coverage for bills of lading, non-vessel operating common carriers and irregular shipping services to Iran," said Shankar Shinde, executive committee member at the Federation of Freight Forwarders' Associations in India.

Earlier, exporters had faced difficulties with paperwork on the Iranian side but that problem had eased, says Ajay Sahai, director-general, Federation of Indian Export Organisations. According to the body, sectors such as information technology, iron and steel, chemicals, machinery and investment in infrastructure are set to increase in Iran. Till a week before, proposals for an official free trade pact between both nations were still on the table.

"Iran is a relatively prosperous country due to oil receipts and has huge demand for outside products, apart from providing the opportunity to access the wider Central Asian region. However, prohibitively high import duties and the threat of further sanctions continue to exist," said Premal Udani, past chairman of the Apparel Export Promotion Council.

Investment

In the investment space, the government is thinking of allowing citizens to invest in Iran through the rupee, to circumvent tough trade sanctions against financial transactions, a Reserve Bank of India official said. Currently, Indians can invest using the rupee only in Bhutan and Nepal. Investment ties between the nations, which hit the spotlight during the visit by Iranian President Hassan Rouhani to India in February, are also expected to be affected. Iran had pitched itself as an untapped market, with reformed foreign direct investment policies, for Indian firms.