



# India-Iran Relations and U.S. Interests

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August 6, 2007

Congressional Research Service

7-....

[www.crs.gov](http://www.crs.gov)

RS22486

## 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. India seeks positive ties with Iran and is unlikely to downgrade its relationship with Tehran at the behest of external powers, but it is unlikely that the two will develop a broad and deep strategic alliance. India-Iran relations are also 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.

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## 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 grow 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 have not evolved into a strategic alliance and 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 accept dictation on the topic from external powers.

Many in Congress voice concern about India’s relations with Iran and their relevance to U.S. interests. Some worry about New Delhi’s defense relations with Tehran and have sought to link this with congressional approval of U.S.-India civil nuclear cooperation.<sup>2</sup> There are further U.S. concerns that India plans to seek energy resources from Iran, thus benefitting financially a country the United States seeks 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 expresses strong opposition to any pipeline projects involving Iran, but top Indian officials insist the project is in India’s national interest. Some analysts believe that geostrategic motives beyond energy security, including great power aspirations, drive India’s pursuit of closer relations with Iran.<sup>3</sup>

Of immediate interest to some Member of Congress are press reports 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, although she did state that, “The United States has made very clear to India that we have concerns about their relationship with Iran.”

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

<sup>2</sup> In April 2007, eight U.S. Senators sent a letter to Prime Minister Singh requesting that New Delhi “suspend its military cooperation” with Iran, asserting that “India’s own interests are damaged by its support for the Iranian military” and that “India’s principles are also poorly served by deepening its military relationship with Iran.” In May, eight U.S. Representatives—including the Chair and Ranking Member of the House Foreign Affairs Committee—sent Singh a letter expressing “grave concern” at India’s “increasing cooperation” with Iran. In July, a letter to President Bush signed by 23 Members of the House expressed concern with “India’s deepening military-to-military relationship with Iran ... [which] places congressional approval of the Agreement for Nuclear Cooperation in jeopardy.”

<sup>3</sup> See, for example, C. Christine Fair, “India and Iran: New Delhi’s Balancing Act,” *Washington Quarterly*, Summer 2007.

Such concerns include the proposed gas pipeline. Secretary of Energy Sam Bodman, visiting New Delhi in March 2007, reiterated U.S. opposition to the pipeline project.<sup>4</sup>

## **Strategic/Political Relations**

According to the 2006-2007 annual report of the Indian Ministry of External Affairs,

India's relations with Iran are underlined by historical, civilizational and multifaceted ties. The bilateral cooperation has acquired a strategic dimension flourishing in the fields of energy, trade and commerce, information technology, and transit. During 2006-07, relations with Iran were further strengthened through regular exchanges.

Past reports have lauded "further deepening and consolidation of India-Iran ties," with "increased momentum of high-level exchanges" and "institutional linkages between their National Security Councils." Iranian leaders, always looking for new allies to thwart U.S. attempts to isolate Iran, reciprocate New Delhi's favorable view and insist that warming U.S.-India relations will not weaken their own ties with New Delhi.<sup>5</sup>

However, there are signs that, following the 2005 launch of a U.S.-India "global partnership" and plans for bilateral civil nuclear cooperation, New Delhi intends to bring its Iran policy into closer alignment with that of the United States. Yet India is home to a sizeable constituency urging resistance to any U.S. pressure that might inhibit New Delhi-Tehran relations or 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 growing U.S.-India partnership, some observers see such rhetoric as incompatible with recent developments.<sup>6</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," its friendly links with Tehran, and a domestic constituency that includes tens of millions of Shiite Muslims, have presented difficulties for Indian policymakers. There are also 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

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<sup>4</sup> Vivek Raghuvanshi and Gopal Ratnam, "Indian Navy Trains Iranian Sailors," *Defense News*, March 27, 2006; "Rice Downplays India's Iran Links," CNN.com, April 6, 2006; "Senate Foreign Relations Committee Holds Hearing on U.S.-India Atomic Energy Cooperation," April 5, 2006; Nidhi Verma and Kamil Zaheer, "US Energy Secretary Says Pipeline Could Help Iran Build Bomb: Report," Agence France Presse, March 23, 2007.

<sup>5</sup> "Iran Sees Good Ties With India Despite India-US Nuclear Deal," Agence France Presse, March 30, 2006.

<sup>6</sup> "India and Iran: End of an Alliance," *Jane's Intelligence Digest*, October 7, 2005; Amit Baruah, "Partnership With Iran in Trouble," *Hindu* (Madras), May 14, 2006.

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 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>7</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 New Delhi of betraying a friendly country by "capitulating" to U.S. pressure. In January 2006, the U.S. ambassador to India explicitly linked progress on proposed U.S.-India civil nuclear cooperation with India's upcoming IAEA 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. Yet, on February 4, 2006, 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. Some independent observers saw India's IAEA votes as demonstrating New Delhi's strategic choice to strengthen a partnership with Washington even at the cost of its friendship with Tehran.

In July 2006, the House passed legislation (H.R. 5682) to enable proposed U.S. civil nuclear cooperation with India. The bill contained non-binding 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). The Senate version of enabling legislation (S. 3709) contained no language on Iran. The resulting "Hyde Act," which became P.L. 109-401 in December, preserved the House's "statement of policy" language and added a prerequisite that the President provide to Congress, *inter alia*, a description of India's efforts to participate in U.S. efforts to prevent Iran from obtaining weapons of mass destruction.<sup>8</sup> In their explanatory statement (H.Rept. 109-721), congressional conferees called securing India's participation "critical" and they emphasized an "expectation" of India's full cooperation on this matter.

## **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

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<sup>7</sup> Steven Weisman, "India Balks at Confronting Iran, Straining Its Friendship with U.S.," *New York Times*, September 15, 2005.

<sup>8</sup> P.L. 109-401 requires the President to describe and assess for Congress "the specific measures that India has taken to fully and actively participate in U.S. and international efforts to dissuade, isolate, and, if necessary, sanction and contain Iran for its efforts to acquire weapons of mass destruction ...." See also CRS Report RL33016, *U.S. Nuclear Cooperation with India: Issues for Congress*.

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 was sanctioned under the Iran-Iraq Arms Nonproliferation Act (P.L. 102-484). In a September 2004 determination, two Indian nuclear scientists, Dr. Chaudhary Surendar and Dr. Y.S.R. Prasad, were sanctioned under the INA. 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 in December 2005. In that same December determination, two Indian chemical companies were sanctioned under the INA for transfers to Iran. In August 2006, the United States formally sanctioned two additional Indian chemical firms under the INA for sensitive material transactions with Iran. The firms denied any WMD-related transfers and New Delhi later said the sanctions were “not justified.” In February 2007, India moved to impose restrictions on nuclear-related exports to Iran in accordance with U.N. Security Council Resolution 1737 of December 2006.

## **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.

There have been expectations that Iran-India military ties would further expand under the 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>10</sup> Some experts see this as part of broad strategic cooperation between two powers in the Persian Gulf and Arabian Sea, but the cooperation has generally stalled since it was signed and has not evolved into a noteworthy 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 reportedly has sought Indian advice on operating Iran’s missile boats, refitting Iran’s T-72 tanks and armored personnel carriers, and upgrading Iran’s MiG-29 fighters.<sup>11</sup> Under the Declaration, the two countries have held some joint naval exercises, most recently in March 2006. The first joint exercises were in March 2003. In March 2007, apparently at Iran’s request, the two countries

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

<sup>10</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*, February 13, 2003).

<sup>11</sup> “India-Iran Military Ties Growing,” *Strategic Affairs*, June 16, 2001.

formed a joint working group to implement the 2003 accord, which Iran apparently feels has languished. During a visit of the commander of Iran's regular Navy—the first such high level exchange since 2003—India reportedly deferred specific Iranian requests, such as an exchange of warship engineers.<sup>12</sup>

## **Economic and Energy Relations**

India-Iran commercial relations are dominated by Indian imports of Iranian crude oil, which alone account for some 90% of all Indian imports from Iran each year. The value of all India-Iran trade in the fiscal year ending March 2007 topped \$9 billion (by comparison, U.S.-India trade was valued at about \$32 billion in 2006).<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 Sanctions Act (ISA). ISA requires certain sanctions on investments over \$20 million in one year in Iran's energy sector. Under a reportedly finalized 25-year, \$22 billion deal, the state-owned Gas Authority of India Ltd. (GAIL) is to buy 5 million tons of Iranian liquified natural gas (LNG) per year. 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, or some 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 in Iran, and Iranian refining capacity is insufficient to meet demand. The purchase of Iranian petroleum product is not generally considered an ISA violation.

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 billion-\$7 billion project, which is tentatively scheduled to begin construction later in 2007 and be completed by 2010. Pakistani President Musharraf said in January 2006 that there is enough demand in Pakistan to make the project feasible, even if India declines to join it. Since January 2007, the three countries have agreed on various outstanding issues, including a pricing formula, and the Indian and Pakistani split of the gas supplies, but talks continue on several unresolved issues, including the pipeline route, security, transportation tariffs, and related issues. 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 ISA. Successive administrations have considered pipeline projects that include Iran as meeting the definition of "investment" in ISA.

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<sup>12</sup> Raghuvanshi, Vivek. "India, Iran Form Joint Group to Deepen Defense Ties." *Defense News*, March 19, 2007.

<sup>13</sup> Indian Ministry of Commerce and Industry, System on Foreign Trade Performance Analysis.

<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.

## **Cooperation on Afghanistan**

India and Iran are tacitly cooperating to secure their mutual interests in Afghanistan. Iran has perceived the Sunni Islamic extremism of 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 is held responsible for terrorist attacks in India. 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 also seek to prevent a Taliban return to power and have each given substantial economic aid to the U.S.-backed government in Kabul. India's presence in Afghanistan is viewed by Pakistan as a potential security threat as a policy of "strategic encirclement."

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