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Chabahar: A port too far

On February 10, 2018, Iran signed an agreement to lease the operational control of Chabahar port to India for 18 months. It has said the handover should be over before October closes out. The dates are interesting since they run just ahead of the freeze on oil exports from Tehran that US is determined to reimpose from November this year.

Clearly the steps India takes for making the port on Iran's east coast become operational in this environment will be watched closely, since it would show how adroitly India can negotiate past the fresh sanctions on Iran and thus demonstrate its adeptness in walking the quicksand of Middle East oil politics.

Essentially as furious changes roil the region with deep implications for the energy business, India is for the first time forced to choose partners in the desert. It has also begun to make a guess about the economic future of the competing countries. Till recently by not showing any partisanship especially among the members of the Gulf nations who control the oil buckets, India had struck true to the saying of Ehud Barak, former Prime Minister of Israel. "The Middle East is a region where predictions go to die".

History: The changes in Indian appraisal of the desert politics did not happen overnight. India was offered Chabahar in 2003 by Iran to develop the infrastructure of the port. Iran knew that a private entity could develop the port faster, especially as India did not have sufficient experience in this sector. But a government to government deal was useful for Tehran as an investment boost struggling under the impact of United States (US) imposed sanctions.[1] The offer came a year after Pakistan and China signed a deal in April 2002 to build the $248 million deep-sea port at Gwadar in the former. China needed Gwadar port for access to the Indian Ocean.

Both projects moved slowly. Gwadar was to be completed in 2005 while for Chabahar India and Iran could not even reach the stage of setting the dates for its completion. The crucial point to note about Chabahar and Gwadar is that they were not envisaged as ports to reach Southern Europe. "Pakistan intends to take on other Gulf ports, especially Oman's Salalah and UAE's Jebel Ali and offer Central Asian states their most efficient warm-water access to both the west and the east".[2] (sic)

As Mr D.P. Srivastava, former Indian ambassador to Iran, who had curated the Chabahar deal in its infancy notes: "Expansion of the port (would) also bring more trade and development to Sistan-Balochistan, a strategic province bordering Pakistan and Afghanistan with few natural resources. In recent years, the region has also witnessed an upsurge in terrorist attacks by groups based in Pakistan".[3] There are other advantages too. India may invest in

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an urea plant adjacent to the port. For Iran, this makes sense to raise productivity in its investment starved farms. There are also plans for setting up an alumina plant by India's state owned Nalco.

So the Iranian government planned to build the port as the mouth of a free trade zone (20 year tax exemption and duty free import) with linkage to central Asia. As an OECD note prepared by the Afghanistan trade ministry notes Afghan investors are also expected to be present in the proposed free trade zone. To make some of those possible India built the Delaram to Zaranj Highway, at the cost of $135 million.[4] The highway, designed and constructed by India's Border Roads Organisation was opened for commercial traffic in January 2009 by then Afghan President Hamid Karzai. The highway brings Afghanistan freight traffic to the Iranian border at Zaranj. "The city of Zaranj serves as the border crossing between Afghanistan and Iran, and historically it is of significant importance to the trade route between Central Asia, South Asia and the Middle East. The highway thus provides land-locked Afghanistan an alternative way to access the Arabian Sea and the Persian Gulf, instead of relying solely on the Pakistani routes".[5]

India has already begun to use the two berths it has committed to develop at the Shahid Beheshti port to send the first few consignments of grain to Kabul. New Delhi, naturally points to this non-oil business as the justification for its presence at Chabahar.

The circumstances became propitious for the port, once Iran signed the landmark nuclear agreement with P5+1 nations in 2015. It lifted the sanctions on the country making it possible for India to push investments in the country. The lead was taken by the ministry of shipping from October 2014 onwards by sending delegation to Tehran and receiving reciprocal ones that converted an MoU signed in 2016 to an investment contract. The MoU was signed between Indian Prime Minister Narendra Modi, Iranian President Hassan Rouhani and Afghanistan President Ashraf Ghani to build a trilateral Transit and Transport Corridor among the three countries using Chabahar Port as one of the regional hubs.

Under the MoU, India Ports Global set up by India's shipping ministry will refurbish a 640 meter long container handling facility, and reconstruct a 600 meter long container handling facility at the port. The company will modernise ancillary infrastructure by installing four rail-mounted gantry cranes, sixteen rubber-tire gantry cranes, two reach stackers, two empty handlers, and six mobile harbor cranes. Upon completion of the works Chabahar's shipping handling capacity will be increased to 8 million tons from the current 2.5 million ton. As of now the investment from India is expected to be about $85 million but the overall Indian exposure to the project is estimated at $ 500 million.[6]

Port Politics

But Indian Ocean politics rides on energy and Chabahar is not an exception. Note that this port is Iran's first deep sea port and lies outside the Strait of Hormuz one of the three choke points in the Indian Ocean, the others being Straits of Malacca and Bab el Mandab Strait and so largely insulated from any conflagration in the Gulf. With UAE just a handshaking distance from Bandar Abbas port of Iran, that ships all of its oil now, Chabahar, built with practically no hinterland as of now, gives Iran a potential escape route for its sea borne trade.

Chabahar is also India's acknowledgement that it has to step beyond its borders in this century to secure its economic interests. It has become necessary after one element of the future had become clear. Like China,

1 https://www.oecd.org/aidfortrade/casestories/casestories-2017/CS-61-NTP-MIP-Chabahar-port-New-transit-gateway-for-Afghanistan.pdf

2 Gwadar and Chabahar: competition or complimentarity? Rizwan Zeb October 2003 https://www.cacianalyst.org/publications/analytical-articles/item/8475-analytical- articles-caci-analyst-2003-10-22-art-8475.html?tmpl=component & print=1

3 India and Iran: Connectivity Matters. Trade and Investment Matters More; DP Srivastava; The Wire June, 2016 https://thewire.in/39583/india-and- iran-roads-matter-trade- matters-more/

4 India hands over strategic highway to Afghanistan; The Hindu, January 2009 http://www.thehindu. com/todays-paper/ India-hands- over-strategic-highway-to- Afghanistan/article16358624.ece

5 https://www.oecd.org/aidfortrade/casestories/casestories-2017/CS-61-NTP-MIP-Chabahar-port- New-transit-gateway-for-Afghanistan.pdf

6 For much of this please see RIS Policy Brief No. 80

India too needs energy to fuel its GDP growth and that energy has to come from abroad. That route is through the Indian Ocean and to ensure that its flag flies peacefully on its ships plying the route, it is necessary to have friendly ports. Chabahar fits the bill, though there is no comparison with China's expansion spree. An energy blockade from the seas may seem far fetched at this juncture, but instead of a difficult war that nuclear nations cannot wage, it is quite a plausible threat to reckon with since it can be waged at far less cost but with devastating impact for the economy. Note that when oil prices are so elevated and have a lot to do with sanctions on Iran, any policy action by Indian then will be watched with this prism.

China's inexorable march to secure its energy supply is determining its outreach among the nations of Indian Ocean and the Middle East and forcing India to react. Djibouti in Africa, Gwadar in Pakistan and Hambantota in Sri Lanka are all Chinese run ports coming up too close to Indian coasts. While Sri Lanka government has emphasised that Chinese navy will not call at Hambantota, that is more of an exhortation than a statement of position. The island owes $ 8 billion in debt to China, the port is like a sale of real estate to meet its dues. Djibouti is a port for Chinese navy and so will be Gwadar. Possibly next on the cards is the proposed deep sea port, Payra in Bangladesh though India too plans to bid for it through the same SPV that it has set up for Chabahar-Indian Ports Global. The company is an unusual state led venture for India in the ports sector. It is a joint venture between JNPT and Kandla Port Trust.

Prospects

These plans read great on paper. The problems are however plenty and the solutions, as yet, few! The biggest of those concern US's fresh sanctions on Iran. Iran has made it more complicated.

In the short run, Iran insists that India should provide it a Euro denominated bank guarantee to operate the project. With banking channels frozen this is a big challenge; the other is the sale of equipments for the ports. Few companies in the world are willing to do business with Tehran to sell it capital equipment and India has to negotiate hard with USA to secure the waivers. The insistence on a Euro currency guarantee is a throw back to negotiations of 2014, when Tehran told New Delhi it would no longer accept payment for gas and oil in Indian rupees even though it was a currency to bypass the sanctions.[7]

Beyond the short term there is the time horizon for the port. India Ports Global can operate the two terminals only for ten years with effect from 2015, as per the agreement signed with Iran. This makes it quite difficult for India to plan any long term investment except to use it as a transit port for sending consignments to Afghanistan.

There are plans to set up an SEZ around the port, but any such investment would take at least five years to fructify by when it would be time for India to pack its bag from there. A better alternative might be to set up a gas liquefaction facility off shore as either a Floating Storage and Gasification Vessel or its reverse a Floating LNG facility to harness a 900 km pipeline, from the gas fields of Assaluyeh in the west of Iran to the city of Iran Shahr which is just north of Chabahar at about 100 km.

These facilities too however are highly capital intensive and also take three to four years to build. But once they are set up they would freeze the investment pattern at the port. It would be near impossible for competitors to divert the role of the port. But it would mean India will have to rapidly make investments to ramp up gas usage as a feedstock back home. Iran too would need to make its gas pricing regime fair for foreign investors, to make the investment viable for

[7] Iran's new government scraps oil and gas connections to India; Indian Express http:// indianexpress.com/ article/ india/ india-others/ irans-new- government-scraps- oil-and-gas - connections-to-india/

India. All of these would again need US forbearance which looks quite difficult. Washington DC has already made clear India has to wound down all its oil imports from Iran. A waiver on gas at this point would just not happen.

There are other factors to complicate the show. In the Middle East the hitherto politically solid bloc, Gulf Cooperation Council, the alliance of six states led by Saudi Arabia (which established it in 1981 at its capital Riyadh) has reached breaking point. Earlier this year, Qatar was accused of breaking ranks with the other members of the bloc that included Kuwait, the United Arab Emirates (UAE), Bahrain, and Oman for having cultivated relations with Iran. The others broke off diplomatic relations with Qatar and have enforced a crippling blockade. The latest is a plan to dig a channel around the peninsula of Qatar to effectively make it an island.

Though Kuwait has invited Qatar back to the annual meeting of the six, in response UAE and Saudi Arabia have formed a new "joint cooperation committee". India has so far been used to deal with the GCC as a bloc that is largely Sunni against the Shia majority countries that are led by Iran. It was a relatively easy equation that has now broken down. To ramp up investments back home, India has in the past couple of years fostered competing relations with these countries. For instance, UAE has operationalised a $ 75 billion sovereign fund for India. Of this $ one billion has already been transferred to India's National Infrastructure and Investment Fund while the volume of oil imports from Saudi Arabia is competing for the number one rank.[8] The kingdom is now the second-largest crude oil supplier to India after Iraq.[9] India sourced 19 per cent of its oil and 29 per cent of LPG imports from Riyadh in 2016-17. Playing cosy with Tehran at this juncture, despite its role as a traditional heavy weight partner for New Delhi, has costs. Since UAE is also China's partner in Africa, the Emirates has strong footprints in the African countries of Ethiopia, Eritrea and Somalia. It ceded its primacy in Djibouti to China and has moved over to create port Berbera in Somaliland.

[8] http://pib.nic.in/ Press Relese Detail. aspx?PRID=1506267

[9] https://tradinge conomics. com/india/ imports/ mineral- fu- els- oils-distillation- products

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