Will the U.S. Let India Continue to Import Iranian Crude?

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India is increasingly finding itself caught between competing alliances.

On one hand, ties between Washington and New Delhi have improved in recent years in large part to what both sides perceive as increased threats from China both militarily and economically in the South China Sea and overall Indo-Pacific region.

On the other, New Delhi has also experienced improved bilateral relations with Tehran. This improvement in relations, in large part, comes from the two countries' own oil related interests. Iran, since earlier sanctions against its energy sector were removed in 2016, has been eager to recapture lost market share both in India and the overall Asia-Pacific region as it quickly ramped up oil production post sanctions.

India, as the world's third largest oil importer after China and the U.S., needs Iranian oil for its expanding refinery sector and also the diversity of supply extra Iranian oil imports would provide. Iran has also been offering India generous discounts on its oil imports this year. As recently as late July, with the first phase of new U.S. sanctions impending, Iran upped the ante ever more by offering to ensure oil cargoes to India after some local insurers stopped providing the service. Currently, India is Iran's second largest buyer of crude oil after China.

Now, recent data shows that India has been trimming its purchases of Iranian crude due to increased pressure from Washington. Earlier this week, preliminary tanker arrival data indicated that India had imported 532,000 barrels per day (bpd) of Iranian oil in August, a 32 percent plunge from just one month earlier. Despite the marked decrease, the August figure is still 56 percent higher than the same period last year as Indian refiners continue to take advantage of Iranian discounts.

Another problem for India is the fact that annual import plans from its refiners were already in place before President Trump's decision in May to reimpose sanctions against Iran over its nuclear development plans. In April, industry sources told media outlets that Indian refiners had planned to double its import of Iranian crude in 2018/19, mostly due to advantageous pricing and discounts offered by Iran. The development at the time marked a pivot in Indian-Iranian bilateral relations and a win-win scenario for the energy sectors in both countries.

Though India trimmed its Iranian oil procurement last month, the question going forward is whether or not this trend will last. New Delhi, for its part, has been waffling over that very question. At times, the country appears to offer a conciliatory tone to Washington to trim Iranian oil imports, while at other times it seems poised to push back against that pressure.

Examining India's oil imports just from the last three months may help provide a possible future trajectory. India cut its Iranian oil imports in June (just a month after Washington stated it would reimpose sanctions against Iran) by 16 percent from the previous month. In July, however, India's state refiners actually increased its oil imports from Iran by 30 percent over the previous month, a record high bump to 768,999 bpd. India's oil imports from Iran in July represented an 85 percent spike from the 415,000 bpd shipped in July 2017. Notably, the marked increase in July's figures came as Indian state-owned refiners increased Iranian oil procurement in anticipation of uncertainty over upcoming sanctions.

Given the mixed signals over compliance with Washington's desire for India to cut Iranian oil and with Iran offering even more advantageous procurement incentives to Indian refiners, it appears that India will continue to buy Iranian oil above 2017 levels.

India also bring its own pressure to bear on the U.S. since Washington is becoming increasingly reliant on New Delhi as a deterrent to Chinese hegemony in the region. This week high level Indian and U.S. officials are meeting in New Delhi over several key issues.

Indian Foreign Minister Sushma Swaraj and Defense Minister Nirmala Sitharaman are holding the first high-level talks with their U.S. counterparts, Secretary of State Mike Pompeo and Defense Secretary Jim Mattis. Part of the agenda includes the goal of boosting cooperation in the Indo-Pacific region and finalizing a pact on encrypted defense technologies.

Though not officially on the agenda, India could also pressure Pompeo for a waiver over its Iranian oil procurement. In July, lower level Indian officials, including those with the ministries of external affairs, home and finance, met with a U.S. delegation led by Marshall Billingslea, the American assistant secretary for Terrorist Financing in the Department of the Treasury to discuss Iranian sanctions, marking what Indian media outlet the Hindustan Times called at the time, "a strong pitch to the US for leniency in complying with sanctions on Iran, citing their likely impact on its oil imports and investment in the Chabahar port." However, nothing concrete materialized from the meeting.

Pompeo said on Tuesday that the issues of Russian arms sales to India and Iranian oil "will certainly come up [during this week's meeting in New Delhi], but I don't think they will be the primary focus of what it is we are trying to accomplish here."

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