

India's Joint Venture and Project Exports in Iran: An Analysis

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Abstract

Keeping in mind the importance of joint venture and project export between two countries which resulted in exchange of technologies and capital, this aspect of the economic cooperation between India and Iran has analyzed in this paper. The planning era of both the countries started with the slogan of the reconstruction and diversification of the economy but find it difficult to go ahead while the existing restrictive rules and regulation and both countries liberalize their economies through the policies of New Economic Reforms. The first incidence about the joint venture between India and Iran came into figure in 1965 when Madras Refinery Ltd. was established. After that number of joint venture were made between these two countries over a period of time. Besides joint ventures India exported a number of consultancy services and projects since 1970s. At various Indian cooperative training institutions India provided training facilities to Iranians. The Iranian proposal was aimed at utilising the large quantities of natural gas in that country. Iran has largest reserves of natural gas in the world, can supply enough gas for re-export to Nepal, Bhutan, Bangladesh and other countries in the region. India and Iran decided to construct a natural gas pipeline that would run from Iran's Qeshm Island to India.

Key words: Economic Cooperation, Joint Venture, Project Export Consultancy Services.

Introduction

India with one fourth of the Asia's population being fastest growing economy in terms of purchasing power parity, industrial output and scientific and technical manpower. India is the main pillar of peace and security in the region, has closest historical ties with Iran since the rule of Aryans. The evidence of the common civilization of the two countries was provided during the excavation in the valley of Sindh, which proved that the Indian people have been related to people of Iran in their origin and culture.

In the modern time, before the emergence of the Islamic revolution in Iran in 1979, the foreign policy of Iran was dominated by the "whims and fancies" of the then Shah of Iran and his tilt towards the United States. The advent of the Islamic revolution in Iran in 1979 proved instrumental in transforming the complexion of Iranian foreign policy. Iran joined the Non-Aligned movement soon after the revolution. Both the countries have stressed on the importance of working together in further enhancing mutually beneficial trade and economic linkages as well as in promoting regional Economic co-operation which would be a factor for peace and stability in the entire region. With the advent of new economic reform in India, the prospect of economic cooperation between the two countries has expanded but there are many untouched areas where negotiation is needed to strengthen the economic cooperation between India and Iran. India can play a key role in the reconstruction and diversification programs of Iran via participating in different sectors like infrastructure, power, railways, ports, telecommunications etc

Relation before Islamic Revolution

In the year 1973, the six fold increase in oil prices by the OPEC, the consequent accumulation of petro-dollar therein and the desire of the Iran to divert these resources into building for themselves more resilient Economics with massive industrialization programme well before the oil reserves were exhausted, led to a significant growth in the imports of engineering goods and joint ventures took place in Iran during this period, but unfortunately India, could not exploit the market due to Iran's unfriendly attitude towards India.

In the year 1965, the first joint venture was setup between India and Iran was Madras Refinery Ltd. In which Indian Ministry of Petroleum holds 50 percent equity, National Iranian

Oil Company NOIC holds 15 percent and other private sector banks FIIs etc holds 35 percent. Which had a production capacity 2.8 million tons and it was further extended to 3.5 million tons per annum in 1974(Singh Darshan,1995). In April 2000, the name of Madras Refinery Ltd. Was changed to Chennai Petrochemical Corporation Ltd.

Irano-Hind Shopping Company Ltd. (IHSC) was formed in 1974. The Islamic Republic of Iran Shipping Lines (IRISL) holds 51 percent equity. It is Government Company working since 1983.

Instead of joint ventures India had a number of Consultancy and project export during the seventies. In 1974, India provided 32 training places in Iran and spent a total of \$ 51,000 for this purpose. India provided two trainings places during 1975 and one during 1976, to Iran under Colombo plan agreement. However, India's total expenditure for various aid programme to Iran under Colombo plan from 1950 to 1976 was worth Rs. 1137 thousand.(Colombo Plan Consultative report,1978)) During 1975-76 Iran recruited 1200 medical personnel from India. Under Indian Technical and Economic Corporation Programme (ITEC) India received two trainees from Iran in 1974. Under the same programme the number of Indian experts working in Iran during 1973 and 1974 was four.(Vohra, Dewan1978) In the year 1975, India had three projects in Iran to the value of Rs. 1036 lakhs. One project was related to pressure vessels for fertilizer refinery project and its values was Rs. 80 Lakhs. The other project which india had in Iran was related to preliminary feasibility cum –cost study of new railway line in Iran for a total length of 340 km and its value was Rs. 23 Lakhs.

A part from consultancy programme, and important agreement signed in the year 1975, for the development of Kudremukh Iron ores mines for which Iran had agreed to allocate a significant amount of \$630 million and in return agreed to buy 150 million tonnes of Iran ore from India over a 20 year period.(BPO1992) But this commitment could not be honoured because of internal policies and subsequently the change of Government in Iran did not allow materializing this agreement fully. By then, Iran had advanced \$225 million. The Project was completed subsequently by the Government in record time and within the stipulated cost.

Relation after Islamic Revolution

In the year 1978, turmoil began in Iran polity against the policies of the Shah and finally forced him to leave the country. After that, the spiritual leader Ayatollah Khomeini formed the new Islamic Government in 1979. New Government cancelled all the agreement and protocol signed by the previous Government. This action badly affected the process of joint venture development between the two countries. The newly established Khomeini was adopted new economic and foreign policy, which was very strong anti - U.S. and anti – west. The Government started mass nationalization of industries and put 60 to 80 percent of the economy under the hand of the Government. Just after the one year of revolution the war was started with Iraq and came to an ends in 1988.(Economic Trends,1986)

During the war period, few Indian delegation visited Iran and few number of agreements were signed for various consultancy and training programme but there was not a single agreement of joint ventures or project exports of significance. Although high – level delegation from Iran and India visited the countries of each other but they could not come to an agreement for setting up ventures and exporting big construction or housing projects. However, a few agreements or small joint ventures were signed between the two countries or export or import of specific commodities and obviously it was due to the war with Iraq, which did not allow the transfer of resources in other sectors. However, in 1986, India signed few agreements with Iran in setting up Small – Scale industries and undertaking road and railway construction and various employment oriented rural development programme.

Relation after New Economic Reform-1991

The consultancy programme was continued during 1990s. In the year 1991, the Indian Petrochemical Corporation Ltd. (IPCL) was begging a 4.4 million contracts train personnel of the Iranian National Petroleum Company (NPC) to develop their petrochemical industry. This Programme had been completed in ten phases. In each phases 30 trainees were trained by Indian experts. During the same year, there was Engineers India Ltd, which provides management and co-ordination services including planning, rescheduling, cost control and construction managements, bagged a prestigious management services contract for \$2 billion petrochemicals complex of Tabraz Petrochemical in Iran against stiff International competition.

The assignment was worth over \$17 million in terms of services and cost alone. In which 100 experts of various engineering disciplines were sent.(BPO1991)

Indian private sector was also provided training programme in Iran during 1990s. India's sector Tata Consultancy Engineers (TCE) bagged a contract to render project management services for Tanvir's 3+390 MW Gilan Combined cycle gas based power plant at Rasht in Gilan province of Iran. The Company also bagged a contract worth about \$1.4 million plus expenses for similar project management services for the 4+25 MW Grab Thermal Power project at Hamadan.(Khan Javed Ahmad1999). In the year 1997, a comprehensive training programme organized by Irano-India Cement Engineering Consultants Company (ICEC) was inaugurated in Tehran on October 1997. One hundred thirty Iranian Engineers will attend training classes that were conducted in five stages with the participation of 40 Indian experts. ICEC is a joint venture consultancy company set up in 1996 between ACC India and Pars Khuzestan of Iran.

Since 1991, India was setup a number of projects in Iran. These are, BHEL was setup a major thermal power project in Kerman which was cost of \$700 million and have a capacity of 810MW. India also setup a major sugar project in Khuzestan which was cost of \$200 million.(BPO1992) In the field of Railway India acquired significant project during these period. In 1992, officials from the Indian Railway Construction Corporation (IRCON) made detailed studies on Iran's intention to link the central Asian region, electrification and modernization of exiting facilities and Tehran's planned metro. Later in 1994, Iranian Transport Minister Akbar Torkan and Indian Railway Minister C.K. Jaffer Sharief signed multi-model and container transportation, besides goods transit for other countries through their territories. The two countries then worked on the two railway links in eastern Iran the 700 Km south east to northern Iran Bafq Mashhad railway line and the 500 Km east west Kerman Zahedan track and services. Both tracks were for providing new land routes to the fast developing Central Asian Republics through Iran. Another contract signed between the Indian Railway Construction Company and Iranian railways in 1997, a contract for the 25 million dollar Ahwaz Barder-e -Imam signaling project. (Khan Javed Ahmad1999) In the early 1990s there was a proposal of multibillion dollar project of laying natural gas pipeline from Iran to India. In mid November 1993, Iranian oil Minister was in India to talk with the India. On the construction of a natural gas pipeline

that would run from Iran's Qashem Island to India. For this Iran and India signed a Memorandum of Understanding to prepare a pre feasibility report for laying the gas pipeline from Iran. This is an ambitious about \$5 billion project, which envisages laying the pipeline through Pakistan. The project has yet to move beyond the papers it was signed on. The 2500 Km pipeline would have a 30 bcm/y capacity and would boost development of deprived areas along the route and regional economic integration. But technical, financial and political factors prevented realization of this project. The visit of Indian Prime Minister to Iran in 1993, has given the go ahead signal to the proposed for an Indo-Iranian fertilizer project on the Qashem Island in Iran. Four Indian companies are to undertake work on the venture in which India and Iran will invest 50 percent each. Later in 1994, a memorandum of understanding was signed between Iran and Krishak Bharti cooperative limited for complete the project. The Indian farmers fertilizer cooperation limited realized that, India should took more for setting up fertilizer plants so as to tide over the crippling shortage of natural gas and Iran with bountiful gas reserves have an excellent opportunity for joint venture in Iran. Another joint venture in fertilizer was set up in 1997 in Iran with the capacity to produce 7.26 metric tons of urea. Share holdings in fertilizer project with an estimated cost of \$ 40 million will be split 60:40 percent between India and Iran. Under the MoUs on the joint venture, India agreed to import 60 percent of the joint ventures product, or even more, given the increasing domestic consumption of urea.(OPEC Bulletin1997)

Iran appears set to enjoy growing influence in a trade axis that spans India in the south up to the Caspian states and Russia in the north. This corridor will splay outwards to Western Europe and southern Asia and political and economic expediencies have thus compelled India and Russia to become strategic bed fellows with Iran. This trade axis was initially proposed in a memorandum signed in September 2000, between the three countries and again on 21st May (2002) The Transport Ministers of Iran, India and Russia met in St. Petersburg to accelerate plans to develop a logistic route linking the three countries in a multi-model system.

The trade corridor connects the ports of Jawaharlal Nehru Mumbai in India with Iranian hub of Bandar Abbas by sea, through Iran by road and rail up to the southern Caspian ports of Bandar Anzali and Bandar Amirabad .the route continues by sea to the northern Caspian port of astrakhan to Russia and then by road and rail to St. Petersburg. The Transport Ministers

from the three principal countries believe that the current transit time from north to south via the canal and Mediterranean currently takes 35 days, yet the route through Iran will take just 12 days. They content that despite the multi- model nature of the route freight costs should be reduced by 15-20% and volume of trade between these countries would be increase increased significantly.(The Middle East,2003)

In the year 2003, Gas Authority of India Limited (GAIL) and national Iranian oil company (NIOC), national Iranian gas company (NIGEC) signed a memorandum for cooperation covering various activities in the natural gas, CNG and LNG sectors. The two companies have agreed to set up joint teams to study and develop project opportunities in identified areas of cooperation. The MoU covers the identified areas like residential gas and CNG infrastructure in Iran, India and third countries, transportation of large volume of natural gas in the form of CNG in remote areas of Iran and India, exploration and production activities in Iran and India, development of gas based petrochemical plants in Iran, setting up gas processing facilities, petrochemicals trading participation in LNG production in Iran. This agreement covered a broad range of activities apart from the gas pipelines and has thus opened several avenues of cooperation between the two countries. Under the MoU, GAIL and NIOC/ NIGEC will undertake to evaluate and implement project related to the possibility development of CNG infrastructure and its use in transport sectors in Iran and India.(Monthly Economic and Commercial Report,2003)

In the year 2002, the an agreement was signed between the Indian minister for Human Resource development and Science and technology Dr Murli Manohar Joshi and the Iranian minister for Science , Research and Technology Mustafa Main to boost and concretize scientific cooperation. The areas identified for collaboration include information and communication technology, food technology, pharmaceutical research, energy, environment and sustainable development. Some specific areas were identified, software, medical and agricultural biotechnology, metallurgy, oil and petrochemicals and alternative sources of energy.

The two sides have decided to setup a joint committee for achieving the objective envisaged in the agreement it will meet alternatively in Tehran and New Delhi. Collaboration will be effected through implementation of joint projects, training of scientific personal, visit and exchange of experts, holding scientific and technology workshops, sharing experiences in

technology infrastructure and technological documents and information as well as experiences with regard to women entrepreneurship and rural technology.(Monthly Newsletter,2003)

A joint-venture between India's state-owned Oil and Natural Gas Corporation and the Hinduja Group has obtained a 40% stake in Phase 12 of Iran's South Pars gas field. The agreement for the project, which is, in total, valued at \$7.5 billion, was announced in December 2009. Iran had previously assigned 60% of the project to the Indian pair, however reduced the share due to concerns over slow progress and US pressure on India. In November 2009, India held discussions on the expansion of military cooperation with Iran. Improved military relations would include Indian training of Iranian troops, satellite services, and joint naval exercises in the Gulf. Previous instances of military interaction include the training of senior judge advocates general from the Iranian Army by India's Institute of Military Law in Kamp tee since 2008. In recently, April 16, 2016 the Trilateral agreement among India, Afghanistan and Iran on Transport and Transit Corridors (Chabahar Agreement) was finalised. When the Agreement comes into force, it will facilitate better connectivity between the South, Central and West Asian regions. This will substantially increase India's connectivity with Afghanistan and Central Asia. More importantly, the Ashgabat Agreement, which came into force on April 23, 2016, is an important corridor connecting Central Asia with the Persian Gulf.¹⁵ India has already shown its desire to be part of this agreement and the Iranian side has supported India's inclusion. Turkmenistan, Iran, Oman and Uzbekistan are part of this agreement

Limitations

Following are the some main problems of India's joint ventures companies:

Infrastructure bottlenecks and domestic shortages

Infrastructure bottlenecks and domestic shortages project export is best example that shows the importance of joint venture companies in India, throughout the period since the inception of independent India, there were some serious limitations in the promotion of projects exports. In India recurring shortages of power, steel, cements, transport and miscellaneous inputs, specially non-ferrous metals put delays, strikes etc. had badly affected not only shortfall in exportable surplus but also avoidable delays in project competition.

Finance plays a crucial role in the economy. The shortage of finance negatively affect reproduction process and efficiency of a company. The less availability of finance has always been a problem of joint venture companies that limits the volume production. The process of loan section in India`s financial institutions like Exim bank, Industrial development bank of India etc. is very regressive and lengthy. Since the date of loan application to sanction of loan, application has to finalise a number of formalities that have a negative impact on the applicant and hence reduces the amount of financial support to needy. Lack of financial facilities thus caused the desired and expected amount of production to lag behind. The Indian Banks offer support to ongoing project in Iran and other countries, but it is done in a long hesitation.

Delay in finalizing a project:

In the way of finalizing of project passes through number of hurdles. Joint venture between different countries faces number of obstacles like financial, political, security and International obligation etc.

Lack of information:

Lack of information has been another reason, why many contracts slipped from Indian hands. In the absence for wide network of monitoring agencies, the information sometimes does not reached to the concerned firm or company. Indian embassies and trade missions abroad were normally handicapped for want or sufficient staff and thus the normal feedback and necessary information were not received. Thus the need of National Trade Information Centre has long been felt that can continually give specific regarding tender etc. Though India`s relations with Iran had improved in the past few years, and economic cooperation between the two countries is being expanded, but still India can play a key role in the reconstruction of Iran in all sectors of its infrastructure, power, railways, port, telecommunication etc. during the Iran-Iraq war India and Iran had signed a number of contracts for the promotion of Industrial and Technological cooperation and their prospects are still very high. The business opportunities for India and Iran are tremendous. Iran now invites foreign capital on a hundred percent equity basis and also provides guarantees for total repatriation of capital and technology whenever the company wants. The established Indian companies in the field of power, railways, ports,

telecommunication, small scale industries and various employments oriented rural development programs need to organise themselves to look at the opportunities in Iran.

International competition

Especially in the new post-sanctions Iran, India will have to be prepared to deal with competition from other regional and international actors who are already active in the Iranian market. European countries and China have already signed major deals with Iran.

Other Factors

Rising to meet Iranian expectations on India playing a much more active role by becoming a major investing country in Iran. New signals coming from the US suggest that global investments have not increased to the extent expected by Iran after the lifting of sanctions. Further understanding the complicated Iranian system and accordingly navigating through it to gain maximum advantage. The decision making system in Iran involves approval at many levels and no decision will have any validity unless it is indorsed by the Supreme Leader .Moreover, India will also have to navigate carefully between Iran and its arch rivals, Saudi Arabia and Israel. For India, its relations with both countries are extremely important. Some 3 million Indian workers live in Saudi. India has both cultural and religious ties with the two countries. So far India has managed to develop independent ties with each. And given the increasing rivalry between Iran and Saudi Arabia, India will need to craft a cautious and balanced policy

Conclusion

A many fold increase, in the oil price in 1973 enhanced the petro-dollar reserve of the Iran. The increased petro-dollar reserve provided an opportunity to Iran in the direction of diversification of the economy. The industrialization programme of Iran led to a significant growth in the import of equipments and engineering goods and joint ventures took place. But unfortunately India failed to exploit the Iranian market at that time due to unhealthy relation between India and Iran.

The first joint venture between India and Iran came into figure in 1965 when Madras Refinery Ltd. was established in Iran with a 50 percent India share of Ministry of petroleum in National Iranian oil Company (NIOC). Another significant joint venture between these two countries in 1974, Irano-Hind shipping company Ltd. (IHSC) was formed in which 49 per cent equity was held by Shipping Corporation of India (SCI) and remaining 51 per cent by Islamic Republic of Iran Shipping Lines (IRISL).

Along with the joint ventures India exported a number of consultancy and projects during the seventies. At various Indian cooperative training institutions, India provided training facilities to Iranian trainees in cooperative marketing courses. Apart from consultancy programme, an important agreement was signed between for the development of Kudremukh iron ore mine. A number of projects were set up in Iran since 1990 Bharat Heavy Electrical Ltd. (BHEL), setup a major thermal power in Kerman, a sugar project is also in Khuzestan region of Iran. This period is also significant from the view point of exports of railways project. Both the countries worked on the two railway links in eastern Iran. The discussion is still continue, since the early years of 1990s about a proposal of multibillion dollar project of laying natural gas pipeline from Iran to India. In the field of fertilizer production both countries are working since 1993 by accepting the proposal forum Indo-Iranian fertilizer project on the Qashem Island. Another joint venture in fertilizer production was set in 1997. In recently, April 16, 2016 the Trilateral agreement among India, Afghanistan and Iran on Transport and Transit Corridors (Chabahar Agreement) was finalised. When the Agreement comes into force, it will facilitate better connectivity between the South, Central and West Asian regions.

This is contrary to the general impression that the Indian exporting community has not adequately exploited the enormous market potential, despite having the natural advantage of geographical proximity and age old trade links.

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