

# Rupee mechanism could possibly bolster India-Iran bilateral trade

## Press Release

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Bilateral trade between India and Iran was on the high growth path but unilateral sanctions imposed by the US were meant to pose as a dampener to this trade. However, there still is an enhanced scope for trade between India and Iran after the implementation of the US backed sanctions on Iran. Trade in rupee through Vostro account of UCO Bank could retain the current trade and may even get a boost if India eyes this opportunity judiciously and use the trade gap to focus on exporting products that Iran requires, some of which it was importing from other countries who have not entered into a Vostro-like deal with Iran and who have fallen to the pressure to restrict their trade with Iran.

Embassy of India in Tehran has today released a list of products which India exports to the world and which Iran has also been importing from the world. Trade pundits in TPCI feel it is a good opportunity for India to broaden the basket of Indian exports to Iran to better utilize the Rupee funds.

No doubt India-Iran remained the essential trading partners even during sanctions as we exported primary edible products such as rice, meat and tea, and fairly imported crude from them.

As per the potential products India needs to focus on new set of products which so far remained tyro. They include: organic and inorganic chemicals, animal feed products, perfumery and cosmetic items, pneumatic and radial tyres, optical and medical instruments, machineries for mechanical appliances, sweet corn, ready to eat packed foods, value added processed food like wafers and cookies, automated agri machines and appliances, radars, wooden furniture's, finished iron and steel products.

Says Mohit Singla, Chairman TPCI: "The bold steps taken by India with respect to Iran and Russia will not only boost India's image as a neutral player in world trade. Trading in rupee can well be a new route of trade, outside dependence on the US dollar."

India found a way of coming out of dollar payment and paying Iran in rupees for the oil it bought when sanctions were enforced on Iran prior to the signing of the Joint Comprehensive Plan of Action, known commonly as the Iran nuclear deal or Iran deal, signed between Iran and the P5+1 countries in Vienna on July 14, 2015.

As the sanctions hit Iran once again from November 4, 2018, this time only at the behest of the US, India may once again pay Iran in rupees for the oil it buys from its third largest supplier. This time round it is not just India that will be opting out of using dollar as the preferred mode of payment, but many countries have started settling trade transactions in local currencies so as to reduce their dependence on the US dollar. Brazil and Uruguay were perhaps one of the foremost countries who switched to settling bilateral trade with local currency, bypassing the US dollar. Germany and France are setting up a Euro-based trading system to continue trading with Iran in the wake of the US call to punish countries having any trade relation with Iran while Turkey, Russia and China too have started looking at a future without the dollar and BRICS countries are talking of using their respective currencies for trading between each other.

Pursuing the same line and with a view to decrease their dependence on the dollar, India and Japan agreed to raise the value of currency swap from the \$50 billion (agreed in 2013) to \$75 billion during Prime Minister Narendra Modi's recent visit to Japan. This means India can now readily borrow up to \$75 billion from Japan in exchange for rupees, signaling even lesser dependence on dollar. More and more countries are slowly realizing that they will have to move away from their dependence on dollar. Such a scenario couldn't have been expected till the beginning of this decade!

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