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Exclusive: Iran and India finalize railroad deal

SIGNIFICANCE

The new railway will provide India a gateway to trade in Afghanistan and Central Asian markets without having goods cross Pakistani territory. Iran will benefit economically from sharing the infrastructure for the project, which it can use to transport its own domestically mined iron ore.

IMPACTS

Business

The collaboration with India affords Iran an opportunity to develop its steel industry and serve the regional steel market.

Political

The new railway will enhance India and Iran's strategic position in Afghanistan and provides a less risky trade route that skirts Pakistan.

Social

If the plan is implemented, the railway and port expansion will create jobs and expand trade relations with Afghanistan.

FULL BRIEFING

Iran and India will build a railway connecting Afghanistan to the Gulf of Oman, a senior Iranian economic official tells Monitor Global Outlook.

Iran and India have finalized plans to build a railway connecting Afghanistan's mineral-rich Bamyan province to Iran's southern Free Trade Industrial Zone and Port of Chabahar, a senior Iranian economic official tells Monitor Global Outlook.

The Memorandum of Understanding, signed by the managing director of Islamic Republic of Iran Railways (IRIR) and his counterpart in India in March, is part of a joint plan to expand the Chabahar port's loading capacity. It will offer India a gateway to trade in Afghanistan and Central Asian markets that avoids Pakistani territory. For Iran, the railways would be a new means to transport its steel for both domestic consumption and eventual export.

Chabahar will "be a focal point for transit and transport between the Oman Sea, Indian Ocean, Afghanistan, and other central Asian republics," Akbar Torkan, a senior economic adviser to Iranian president Hassan Rouhani, said in a phone interview from Tehran. "We are also focusing [on Chabahar] for Iran's steel industry."

Mr. Torkan, who is managing Iran's industrial and free trade zones, says he confirmed the plans with India's ambassador to Iran during talks before the Iranian New Year, which started on March 20. The MOU was signed on the back of a visit to India in late February (http://zeenews.india.com/news/nation/iran-wants-early-completion-of-chabahar-port-project-zarif_914694.html) by Iranian foreign minister Mohammad Javad Zarif, during which he called for New Delhi to speed up plans to expand the Iranian port.

Chabahar port, which lies along the Makran Coast in Iran's province of Sistan and Baluchistan, will be expanded to include 12 berthing facilities that can accommodate larger Capesize, Suezmax, and Panamax shipping vessels (<http://people.hofstra.edu/geotrans/eng/ch3en/conc3en/shipsize.html>), Torkan tells MGO. Iron ore can then be exported by ship throughout the Middle East and Central Asia. "The plan for Chabahar is to focus on transportation," Torkan said. Iran also plans to build a steel factory with a capacity of three million tons in the free trade area, he added.

The Afghan Iron and Steel Consortium, led by Steel Authority of India Ltd (SAIL), was awarded mining rights to three of four mining blocks in Hajigak - which holds an estimated 2 billion metric tons of ore - in 2011. A contract for SAIL to develop the mines and build a steel plant in Hajigak is expected to be finalized once Afghanistan's parliament passes a new law on mines and minerals intended to protect foreign investors.

Mr. Torkan says the railroad connecting Hajigak to Chabahar will extend to Zahedan (the capital of Iran's Sistan and Baluchistan Province) and to the northeastern Iranian city of Mahshad.

Analysts tell Monitor Global Outlook the chief economic benefit to Iran will be the opportunity to use the new railway facilities to transport its own iron ore, in addition to what is mined at Hajigak. The planned route for the railroad will pass through Iran's South Khorasan and Khorasan Razavi provinces, which have the highest number of operating mines in Iran.

To help finance the primary materials and components needed for the construction of the railway, Iran will be able to use some of its rupee-denominated revenue (much of which is from the sale of Iranian oil to India), a Tehran-based analyst tells MGO. Tehran has well over 300 billion rupees (\$5 billion) in Indian bank accounts, according to the analyst. The ability to pay without resorting to international bank transfers is attractive to Tehran, which is subject to US Treasury sanctions that have frozen more than \$100 billion (<http://www.csmonitor.com/World/Middle-East/2013/0115/As-IAEA-arrives-in-Tehran-Iran-braces-for-full-force-of-US-sanctions>) in Iranian foreign exchange reserves worldwide.

"Were it not for the economic and political situation, Iran is well placed to produce steel because it has lots of very cheap gas," says Marcel Genet, head of strategic consultancy Laplace Conseil (<http://www.laplaceconseil.com/>), which specializes in the metal and mining industries. "Letting iron ore transit along its country is of [little economic] benefit to Iran apart from the fact that it might be able to share some infrastructure."

For the time being, the chief investor in the planned steel facility is the Iranian Mines and Mining Industries Development and Renovation Organization (IMIDRO (<http://www.imidro.gov.ir/>)), a state-owned holding company active in Iran's mining industry. Torkan said Tehran would eventually like to invite foreign investors to participate in the project.

"If there is the political will to develop the steel industry further to serve more of the regional market, that is not a bad idea," says Mr. Genet. "Iran has a large domestic market which is not fully satisfied by domestic [steel] production. It has proximity to markets and proximity to feed gas, which is a huge advantage."