PAKISTAN-IRAN PIPELINE PROJECT – A LIBERAL PERSPECTIVE

Mr. Muhammad Umar Farooq Baloch

Abstract

The global energy resources have constantly been depleting. Oil as an example, meets up with 37% of the global energy needs, and is expected to last only 42 more years pertaining the current rate of consumption. In this regard, the energy crisis in Pakistan has also seriously aggravated affecting the economy and growth besides paralyzing the routine life. Consequently, Pakistan is in dire need to address its energy issues. Given its geopolitical disposition with energy rich Central Asian Region (CAR’s) and Iran in its neighborhood, Pakistan has a chance to come out of the crisis in time. Nevertheless, plans like the Iran-Pakistan gas pipeline project, thus exists with extreme essentiality with no apparent alternatives in the foreseeable future. Concurrently, where Iran is in a state of confrontation with US due to the controversy of its nuclear program, it faces numerous challenges and US led sanctions. The US in order to isolate Iran has also been forcing international community to follow the same pattern. In this pursuit, it also managed to convince India to abandon the very project and has been pressurizing Pakistan to look for other alternative; despite the fact that the project has immense importance for the region. Hence, the premise of the
paper is that the importance of the project should be objectively highlighted in front of the international community by putting forth the mutual stakes of the states involved. The entire scheme of study envisages a liberal perspective applied on the factual layout of the gas pipeline project.

**Background**

The idea of the Iran-Pakistan-India gas pipeline project was initially published by Malik Aftab Ahmed Khan, in mid 1950s, through the Military College of Engineering, Risalpur, Pakistan\(^2\). Later, he retired from the Pakistan Army as a Lieutenant Colonel. The project was conceptualized in 1989 by Rajendra K. Pachauri in partnership with Ali Shams Ardekani, former Deputy Foreign Minister of Iran. Dr. Pachauri proposed the plan to both Iranian and Indian governments in 1990. The government of Iran responded positively to the proposal.

At the annual conference of the International Association of Energy Economics of 1990, Dr. Ardekani backed Dr. Pachauri’s proposal. The project after being conceptualized to India in 1989 came with a proposition by Iran for extension of the project to India using Pakistani territory. This was followed by signing of the agreement by Indian and Iranian governments in February 1999. Initially, the Indian government was reluctant to enter into any agreement with Pakistan due to the historically tense relationship between the two neighbours. As an alternative, India suggested the
development of a deep sea pipeline, where no threat to security of resources could exist. The project has since then faced many ups and downs without making any meaningful progress.

**Technical Details of the Project**

- **Country**: Iran, Pakistan, India (In 2009, India withdrew from the project).
- **Route**: Originates from Asalouyeh (South Pars gas field), passes through Bandar-Abbas, Iranshahr, Khuzdar up to Sui and Multan.
- **Type**: Natural gas.
- **Partners**: National Iranian Oil Company, Sui Northern Gas Pipeline Limited, Sui Southern Gas Company Limited.
- Expected to be completed by mid – 2015.
- **Length**: 2,775 kilometers (1,724 mi), From Iran side 1100 Km (730 miles), Pakistan 1000 Km and India 600 Km.
- **Discharge**: Initially 22 billion cubic meters per year (21.5 million cubic meters per day) (750 million cubic ft), will be raised up to 55 billion cubic meters per year.
- **Diameter**: 48 inches (1,219 mm).
- **Estimated Cost**: US $ 7.5 billion.
- **Estimated Time**: 3-5 years.
- In Khuzdar a branch would spur off to Karachi. From Multan the pipeline may be expanded to Delhi.
Alternative route proposed by India; Iran to the maritime boundary between India and Pakistan off Kutch. From there one branch to run to Pakistan hence the other branch to run to Kutch.

**Finding Common Interests – A Liberal Perspective**

As this research paper is aimed at suggesting a viable course of action for Pakistan for under taking the project and meeting its energy demands, it is perceived from liberal paradigm that the proposed project of construction of Iran-Pakistan-India/ Iran-Pakistan pipeline could be possible, if some common interests of all the stakeholders are identified and suggested to the decision makers. Basing upon this ideology a tangible hypothesis may be spelled out which states as follows:-

“The commonality of interests leads to viability of a project”

In this statement, “viability” is a Dependent Variation, which is related to “interests” being a Permanent Variable and “commonality of interests” being an Intervening Variable and helps in decision making process. When the above theory is applied on the proposed IPI / IP Pipeline Project, following common interests are identified:-

- **Demand and Supply Requirements:** It is a matter of fact that all (main and other) stakeholders in the project are subjected to energy crisis. The demand and supply gap is increasing day by day and all of them are in search of alternative and urgent means of energy
sources. The fulfillment of the IPI / IP Project would go a long way in meeting the requirements of all stakeholders. Moreover, a lot of work has already been done and the materialization process would entail minimum time. The direct stakeholders i.e. India, Pakistan and Iran shall get immediate dividends, whereas the other stakeholders would also be benefitted in due course of time. As regard to US, it mostly meets its demand of oil from Gulf countries and is in the process of concluding a number of agreements with CARs as well for future needs. Furthermore, its reservations and hard stand on IPI project is due to Iranian nuclear issue. It is also interesting to note that US intelligence agencies are of the view that Iran has not crossed the limit of enriching Uranium up to 20% and hence, still away from making nuclear arsenal.

➢ **Economic Interests:** It is also a fact that the proposed project would bear tremendous economic dividends for all stakeholders especially the regional countries. As regards to the US, the proposed project is important not only in meeting its energy requirements but also beneficial in flourishing its industries, hence, strengthening its economy which has been showing negative trend for the past one decade. The success of this project can turn to be a trigger point for development of other pipeline projects, hence, not only ensuring constant and uninterrupted supply of oil and
gas to new markets in the west but also generate tremendous economic activities all over the globe.

- **Socio-political Interests:** The socio-political dynamics of South and Central Asia are very unique in nature. Both the regions are house of one fifth of the total world population with half of the world largest resources. It is also pertinent to note that there are four nuclear powers in the region (China, India, Pakistan and Russia) and the fifth one (Iran) is about to take off. Furthermore, the region is home of world’s most ancient civilizations and the largest emerging economies with huge prospective for investments. As Asia has become more important, there has been renewed and increased great powers involvement in the region. The US policy with regard to the region has been to promote democracy, economic liberalization and to engage countries in the international system. This policy has been underlined by multiple military bases to fight terrorism and to protect US national interests.4

The following chart helps us understanding the relationship between the stakeholders with various factors associated with the project, showing positive signs of commonalities of interests:-
An Appraisal

The proposed pipeline serves the best interests of both Iran and Pakistan. Technically there seems to be no hitch in the project; however, question arises to assess the suitability of the project from economical and geo-political perspective. The need of exploring the realistic paradigm of the issue arises as it is feared that a technically and economically pragmatic project may not suffer due to geo-political scenarios of all the stakeholders. One main player of this game is the United States which is aimed at isolating Iran on both economic and political front. How the US pursues its policies for this IPI pipeline and response of two beneficiaries Pakistan and India is not merely an economic issue, but also a political issue.5
Economic Viability

While technically being a viable project, the question arises whether the project stands economically feasible as well. Two important factors are associated to the query of economic viability of the proposed project – the project finances and the gas price.

➢ **Finances:** The total project estimates have been assessed to $7.4 billion. Iran is subjected to US sanctions due to its nuclear standoff and is likely to face even tougher sanctions from United Nations or even strike on its nuclear installation. The regional conflict situation would have serious consequences not only on financing the project but will also put the process of construction of the pipeline in jeopardy. However, following positive indicators have shown that the funding of the project is no more a critical issue:-

• A consortium was also under discussion among BHP (*Broken Hill Proprietary*) Australia, NIGC (National Iranian Gas Company) Malaysia, TOTAL France, SHELL Netherlands, British Petroleum UK in addition to Iranian, Pakistani and Indian national gas companies.

• Russian Gazprom has expressed interest and last month Russian Prime Minister Mr. Fradkov visited Pakistan and signed a number of co-operation
agreements. China has also offered to help finance the project.

- Norwegian Prime Minister has also expressed investment interest in the IPI pipeline at least in Pakistani part.

- The most recent breakthrough came on May 2\textsuperscript{nd} 2007, when the World Bank’s vice president confirmed that the World Bank is willing to fund any of the gas pipelines [IPI & TAPI] though not officially approached by any member country after looking at land acquisition procedures and environmental issues. The statement came at the same day when US congress committee on international relations wrote a hard tone letter to Indian prime minister\textsuperscript{6}.

- **The Gas Price:** There have been a number of rounds amongst the member countries over the question of deciding the gas rate\textsuperscript{7}. Iran initially demanded US$ 7.20 per million thermal units (mBtu). The same was almost double of what India offered at border i.e. US$ 4.25 per million thermal unit (mBtu). As stated by Iran’s deputy oil minister Mohammad Nejad-Hosseini, “the price suggested by India and Pakistan is almost half of the price we demanded. If the two governments intend to subsidize their domestic gas, there is no reason for Iran to pay this subsidy.”\textsuperscript{8}
According to the new formula the price of gas will translate to $4.93 per MBTU that is linked to the Japan Crude Cocktail (JCC) price (at current US $ 60 per barrel) at Pakistan-Iran border. In the case of oil price being US$ 40 or US$ 70 per barrel, the equivalent gas prices would be US$3.67 and US$ 5.56 respectively. All three parties have expressed satisfaction with the formula while Pakistan has officially approved it. A high level Economic Cooperation Committee (ECC) officially endorsed the formula and plans for the construction of Pakistani segment showing a commitment on the Pakistani side to go ahead with the pipeline even without India. However, a new glitch in the price issue arose when Iran demanded revision of formula after every three years. In case India also undertakes the project, Pakistan would get additional benefit on account of transit and tariff fee for which dialogues between the two nations have not yet been concluded.

Political Acceptability: Ever since an agreement has been signed to undertake the project, there has been no meaningful progress in its implementation. It is, however, encouraging that both Pakistan and Iran are determined to convert the “dream pipeline” into a “reality pipeline”. Although, there were initially two stake holders in the project; India joined later and then dumped it amidst under immense US pressure. US on
the other hand also claims to be the stakeholder in view of linkage of its strategic interests in the region especially its policy of containment of Iran and China. China being a significant global player, a de-facto leader of regional politics and economic giant of the present era, cannot remain aloof from the development. China is also one of the financer of the project and hence, has become another stakeholder. The sum of all above matrix has added a political chapter to this purely economic issue, which is now facing unprecedented delay. Realistic perspectives of the western interests of all regional and global players in the project are discussed in the succeeding paragraphs.

**Iranian Interests**

In the proposed project Iran being the major entrepreneur is the prime stakeholder and so are her interests. As stated earlier, Iran possesses second largest gas reserves in the world. But, despite its vast oil and gas reserves, Iran is suffering a staggering decline in oil exports caused by lack of investment by foreign energy companies. In the wake of US sanctions prohibiting US companies and their foreign subsidiaries from conducting business with Iran, the Iranian energy sector has been adversely affected. According to one credible estimate, investment in Iran's energy sector has plummeted as a result of these sanctions, and Iran export has reduced to 2.34 million barrels of oil per day, about 300,000
barrels below its OPEC (Organization of the Petroleum Exporting Countries) quota.¹⁰

Under such critical situation, exploring new markets for its huge quantity of hydrocarbon is on the top agenda of Iranian economic policy. So, the proposed pipeline is considered as the lifeline for Iranian diminishing economy. However, it is not as simple an affair. Iran’s political scenario especially after 1979 revolution is altogether different as what it used to have during Shah’s time. The Shah’s of Iran chose to align himself with the United States in order to avoid a domestic communist advance on his power.¹¹ As result of Iranian Revolution-1979, there occurred a strategic shift in the Iran’s foreign policy paradigm.

Iran developed shoddier relations with west especially USA, which even kept on showing trend in passing moment of their history. As a matter of fact, Iran also failed to maintain exemplary relations either with its neighbors, Gulf States or other regional countries. Iran’s prevailing nuclear programme has made her position bad and the diplomatic ties with US. The fallout of the situation has adverse effect on the proposed gas pipeline venture which would have paved way for economic and social uplift of Iran in particular and the region in general. Today, US following the policy of its containment, maintains a very hard stance against Iran. In the historical context, Iran’s aspiration to emerge as a regional power is linked to its close relations with the United State.¹² So, the proposed pipeline project is vital for Iran not only to shoulder
its stranding economy but also to keep its standing in the comity of nations.

**Interests of Pakistan**

Due to its geo-strategic location, Pakistan has been bestowed upon two most vital oil and gas export corridors in the world. If Pakistan is able to cash this opportunity, it will not only help Pakistan to overcome its economic hardships but shall also go a long way in improving its relations with Gulf countries and CARs. It is also pertinent to highlight that the hydrocarbon resources of CARs would gradually become focus of world attention for at least next century. Fortunately, the route of all these commodities to international market passes through Pakistan which makes its position even significant in the international comity. Gwadar deep sea-port is being developed by Pakistan on modern lines and it is expected that this port would generate revenue of approximately $1.5 billion dollars.\(^{13}\)

As a matter of fact Pakistan is also facing serious energy crisis. The present availability of energy is 64907 Thousand Tons of Oil Equivalent (TTOE) against its demand of 63088 TTOE, which is being shared by oil, gas, electricity, nuclear energy and coal. The available gas and oil resources are depleting rapidly and the gap between the demand and supply is increasing on daily basis. According to a moderate demand estimate, the demand-supply gap in Pakistan’s gas sector shall rise eight times in 2015.\(^{14}\) So, the materialization of this pipeline project (either from Iran / CARs or both) is of
paramount importance to meet the energy demand of Pakistan and flourishing of its industries.

However, the fulfillment of this dream project is deeply linked with geo-political environments of the other stakeholders. In case of Iran-Pakistan / Iran-Pakistan-India Pipeline Project, the Iranian factor is very important and in case of TAP / TAPI Pipeline Project, a peaceful and stable Afghanistan is a pre-condition for successful flow of export. Above all the interests of other regional and international players, especially those of USA, are also required to be coincided with the interests of Pakistan. It is also extremely important for Pakistan to ensure internal peace and stability as Pakistan’s internal security situation has a direct impact on any pipeline project being put on ground.

**Indian Perspective**

India under heavy US pressure has almost shelved the project of gas pipeline from Iran through Pakistan. Critically analyzing, India’s energy situation is much more alarming than Pakistan. India depends largely on Gulf for import of oil to meet the requirement of industry and transport for generation of electricity. Moreover, the situation of gas in India’s case is also not satisfactory at all. India produces only 2275 billion cubic meters and consumes the same with tremendous short fall. India’s gas consumption is likely to rise 400 million cubic feet a day with current supply of just 100 million cubic feet a day.\textsuperscript{15}
Now, in order to meet its energy requirement which is mostly natural gas based, India has three available options; the domestic reserves, the LNG imports and pipeline projects. Domestic reserves being far short of its demand India is compelled to resort to gas import. Import through LNG technically viable but being a very expensive leaves no option other than pipeline import.\textsuperscript{16}

Although a number of different pipeline options have been explored, there are only three that currently seem to carry any prospect of success. The first is a pipeline from Myanmar, where Indian companies have equity holdings in a gas field. The second pipeline option would capitalize on central Asian gas, extending from Turkmenistan, through Afghanistan, Pakistan and into India (TAP / TAPI). The final option for gas imports is the IPI, which would be the largest and most expensive option, but has also emerged as the one with the best chance of success.\textsuperscript{17}

After weighing all options, the experts are of the view that, as long as natural gas is used to move India's power turbines, Iran, geographically closest to India, will be the lowest cost supplier. India has three options to acquire natural gas from Iran (i) in the form of LNG (liquefied natural gas), using LNG fleets through the Arabian Sea (ii) through a deep sea pipeline or (iii) through land route. The land-based option is four times cheaper than others, when including transit fee payments to Pakistan.\textsuperscript{18} Hence, one can conclude that India have inbuilt economic and strategic interests in the proposed IPI project. It
may delay the project but cannot deny it for its booming economy.

**Interests of China**

It is beyond any doubt that China today is holding the strongest economy in the world, which is growing even fast. China is also well aware of its future energy needs to run its industries. China’s energy demand is projected to increase steeply. According to estimates by the Institute of Energy Economics, energy demand in China will increase from 1,765 MTOE in 2007 to 2,539 MTOE in 2020 and 3,451 MTOE in 2035. China will account for roughly 30% of the increase in global primary energy demand from 2007 to 2035. Driven by this burgeoning demand, the Chinese government has made securing access to the largely untapped reserves of oil and natural gas in Central Asia which is considered as a cornerstone of its economic policy for the next two decades.

China has developed strong economic and trade relations with CARs. China has also announced a number of oil pipeline growth programs along the borders with CARs. China which is presently the sixth largest oil producer in the world still needs to import oil to meet domestic demand, which is projected to double in the next fifteen years. China is committed to build a $12.5 billion worth of oil pipelines from CARs to China and has also offered to build a strategic 1000 km pipeline from Uzen in Kazakhstan to Banadar Abbas on the Persian Gulf from where tankers could ship oil to China’s coastal cities and westward towards Europe. As regard to Iran-Pakistan
Pipeline, Chinese banks had been forthcoming in financing the project which speaks of Chinese interests in the proposed project. It is also pertinent to highlight that Chinese are assisting Pakistan in developing Gwader deep sea port which will be a short route for import of raw material for Chinese industries and a quick outlet for their finished products.

**US Interests and Obstinate Stand**

United States is the largest consumer of oil in the world i.e. Over 25% of the world's consumption.\(^{21}\) Possessing only 3% of world’s known oil reserves US imports 60% of oil for her daily oil consumption.\(^{22}\) In order to meet its future energy needs US has launched a diplomatic offensive in CARs by sending many high powered delegations to CARs. While accepting that Washington does not see pipelines and new oil and gas supply developments as a zero-sum game, the US clearly has a range of cross-cutting and sometimes conflicting strategic and energy goals in the region that must be constantly balanced and re-evaluated. US have announced its energy security goals of maximizing the flow and transport diversity of oil and gas supplies to Asia and Europe, but on ground its implementation is altogether different.

US on one hand has shown keen interest in CARs energy resources and further promoting investments that bring more incremental supply of oil and gas to international market yet wants to keep a check on Russian and Chinese influence in the projects. While the United States has a basic interest in promoting the flow of Eurasian oil and gas to Europe and

\(^{21}\) Over 25% of the world's consumption

\(^{22}\) Possessing only 3% of world’s known oil reserves
Asia, it has also actively sought to influence the geography of pipeline routes from Central Asia in order to limit Russia’s control over European oil and gas markets as well as over the scale and direction of oil and gas supplies from Central Asia.\(^{23}\)

Coming over to the proposed IPI Pipeline Project, US has taken a very hard stand and announced a number of times that the project is directly tangent to US interests and policies in the region. In the overall scenario, the question of the Iran–US dispute over Iranian Nuclear Standoff is central to the venture. Viewing the hostility between Washington and Tehran, it is unlikely that US will support any venture that Pakistan or India wish to pursue with Iran.\(^{24}\) While the US is keen on developing economic ties with India, it is adamant on isolating Iran from the international community. On 27\(^{th}\) of March 2007 American Energy Secretary Samuel Bodman on a visit to New Delhi warned India to ‘shelve plans to participate in the project’. His remarks can’t really be termed diplomatic or nuanced; he appeared to be reading the riot act to India.\(^{25}\) Although, Indian government initially shown, no signs of accepting any pressure from US but now it seems that it has most probably abandoned the project on the pretext of security situation in Pakistan and the gas price. US, on the other hand, has given various incentives to India for meeting its energy demands including nuclear civilian technology and acceptance on TAPI Pipeline Project.

Pakistan has, on the other hand, shown resilience in undertaking the project at all costs. Pakistan is a frontline ally
of US in the ongoing war on terror, which is in the critical stage in the region. So, the US cannot afford to ignore Pakistan’s perspective in any issue related to its interests in the region. The western press has reported that the US pressure is building up on Islamabad not to enter into pipeline deal with Iran. Apparently, it seems that till such time Iran’s position is not clear on its nuclear confrontation with the US, there are remote chances of materialization of this project. Contrarily, the TAP / TAPI project enjoys backing of US but it is again linked with situation in Afghanistan.

**Findings**

The following findings may be deduced during the course of the study;

- IPI Pipeline Project is a technically feasible and economically viable project. However, it is suffering from political non-acceptability from US due to which an unprecedented delay is occurring in the execution of the project.

- Pakistan, Iran and India are the main stakeholders in the project and have inherent interests which include energy requirement, economic benefits and socio-political rewards.

- The other direct or indirect stakeholders include mainly China, Russia and USA, whose interests are also associated with the project. The urgency and the priority of these interests, however, vary from country to country.
The practical manifestation of the project is only possible, if there is convergence of interests of all the stakeholders and key political players. The correct identification of common interests and appropriate diplomatic and other tactful measures are essential for converting the dream pipeline into reality.

Whether the project is acceptable to the international players or not, it is also a fact that it can only be delayed and not denied.

Conclusion

In the given backdrop, it is now easy to conclude that the geopolitics of energy is important segment in International Relations. If the US and the West are sincere in meeting their political objectives in this region, then they should by all means support the proposed IPI Project and other such projects in the region. These will definitely result into defeating terrorism, social uplift of the people and establishment of true democracy in the region.

As regards to bilateral relations amongst regional countries the pipeline project can turn out to be a peace pipeline or prosperity pipeline. In the context of India - Pakistan relations, the issue of energy goes beyond traditional trade and economic relations, and has wide-ranging effects on economic growth, peace negotiations and regional power status. The need for energy also ties in closely with the issues linked with the globalization of these countries as multinational energy corporations become the true players on
the Asian markets with economic and political consequences which cannot be entirely foreseen at this stage.26

End Notes

6 Ibid.
10 Ibid.


25 Ibid. p-30.

26 Ibid. p-31.