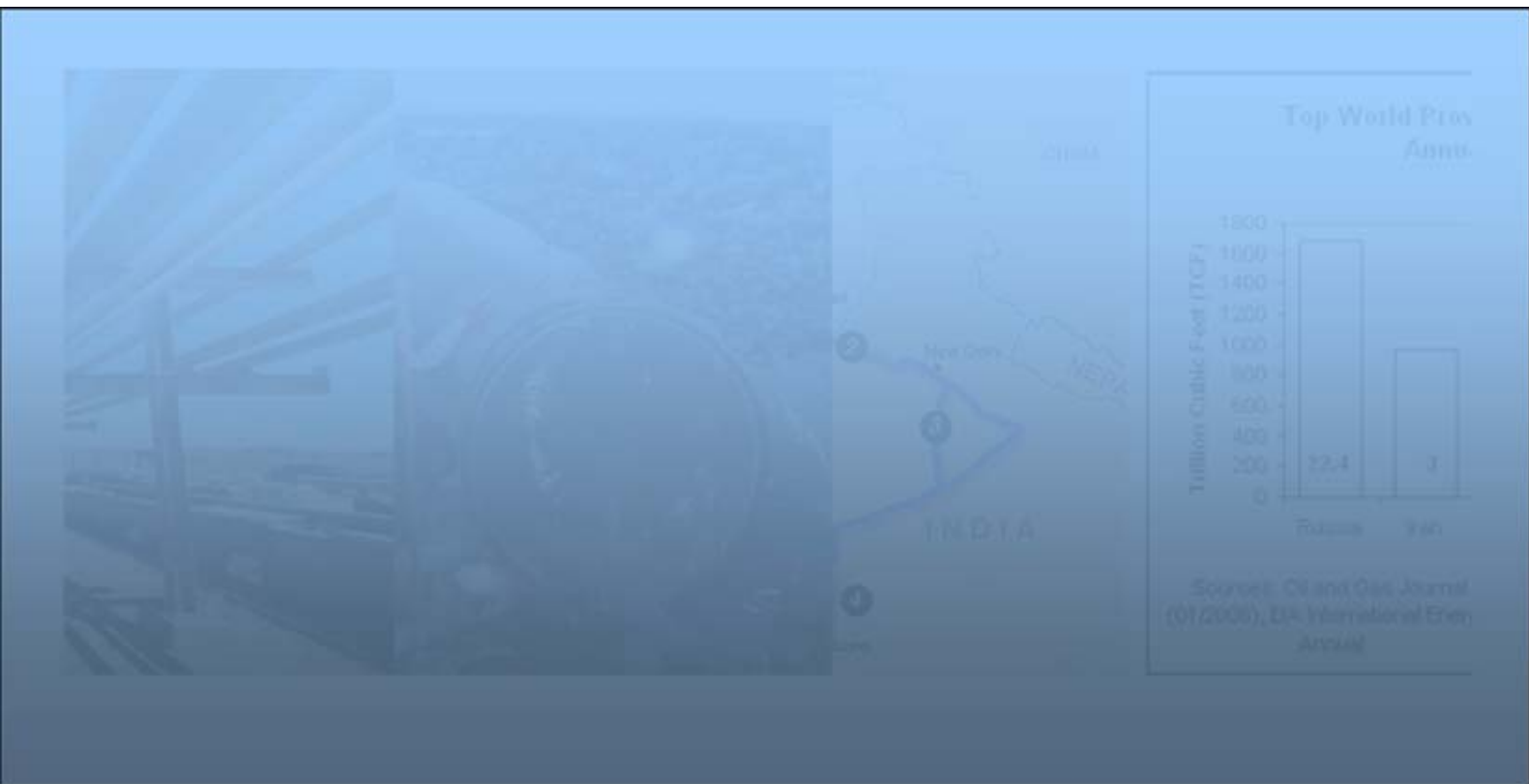


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The Iran-Pakistan-India Pipeline Economics, Geopolitics and Security

Haider Ali Hussein Mullick

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The Iran-Pakistan-India Pipeline Economics, Geopolitics and Security

Haider Ali Hussein Mullick¹

Introduction

The Iran Pakistan India Pipeline (IPI) is a work in progress. In the wake of rising energy costs and demands, Iran, Pakistan & India have mulled over building a natural gas pipeline over a quarter century. Iran has the world's second largest proven natural gas reserves, and is desperate to increase energy exports to offset economic stagnation brought about by American and European Union sanctions. The main impetus behind building the IPI is economic. In a region supercharged with geopolitical intensity and international security concerns, however, economics is not the only force in play. Geopolitics and the security situation are equally compelling reasons to consider before building the pipeline. This brief will explore the perceived economic, geopolitical and security pros and cons of building the IPI.

Spanning a length of approximately 2,225 km (1,383 miles) from Iran to Pakistan to India, the current costs estimates for the IPI hover under the \$7 billion mark². The IPI is expected to start at Asalouyeh, Iran (near the South Pars natural gas field), and then connect to Multan, Pakistan, and finally to Delhi, India. Further extensions to the pipeline are also expected (see Figure 1.1). How and why did all three countries – Iran, Pakistan and India – come to the present stage of negotiations are integral questions to understand the economics, geopolitics, and security –issues related to the IPI.

This following section attempts to answer the “how” part of the question by highlighting major milestones in the process of negotiating the IPI project; and the proceeding section explains the “why” part of the question by summarizing the economic, geopolitical and security issues affecting the IPI project.

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² “Iran Rejects Indian Price for IPI.” *The Hindustan Times*. July 6, 2006.

Figure 1. Indication of one of the proposed routes



Major Roadblocks

While negotiations on IPI have come a long way since the late 1980s there were times when diplomatic, geopolitical, economic and security roadblocks threatened to derail the project. Since natural gas was first discovered in Iran's South Pars field in 1988 there have been various proposals for bi-national and tri-national natural gas pipelines between the three nations.

In 1995, Pakistan and Iran signed a preliminary agreement for the construction of a natural gas pipeline linking South Pars with Gwadar Port in Karachi, Pakistan's main seaport city, at a \$3 billion³ cost. A few years later Iran proposed an extension to India. In February 1999, Iran signed a preliminary "in-principle" agreement with India, agreeing to bi-lateral cooperation conditional on a future India-Pakistan cooperation agreement. However, India suggested an alternative route, bypassing Pakistan, through a deep-sea pipeline due to tense India-Pakistan relations⁴ and the threat to a stable supply to India. For the Indians the higher cost of the alternative was worth paying.

Soon after large private and state-owned or controlled companies such as BHP of Australia, NIGC, Petronas of Malaysia, and French TOTAL; and a consortium consisting of Shell, British Gas, Petronas, Iran Gas Company, Gas Authority of India Limited (GAIL) began working together to build consensus on the tri-nation pipeline.⁵

This process of finding a consensus did not last too long. Iran was slapped with US economic sanctions when the US Congress passed the Iran-Libya Sanctions Act of

³ Shah, Mohibullah (2007) "Moves on Energy Chessboard" *The Dawn*. March 1, 2007

⁴ A few months after successfully becoming nuclear powers in 1998, India and Pakistan fought a skirmish in the disputed region of Kashmir –the Kargil Conflict. Since 1947, both countries have fought three wars and came very close to forth one, with the threat of nuclear exchange, in 2001/02.

⁵ Shamila N. Chaudhary "Iran to India Natural Gas Pipeline: Implications for Conflict Resolution & Regionalism in India, Iran, and Pakistan" TED Case Studies, Volume 11, Number 1, January, 2001 <http://www.american.edu/TED/iranpipeline.htm>

1996. This act would enforce credit penalties on all foreign and domestic energy companies investing more than \$40 million in the Iranian energy market. At the American President's discretion, no American banks would do business with the violators. At the time of the act's expiration, the Iran-Libya Sanctions Act was quickly renewed in 2006. The U.S. President has not penalized any company domestic or foreign, however, and fewer companies are doing business in the Iranian energy market in excess of \$40 million.

While Iran-US relations suffered immensely due to the Iran-Libya Sanctions Act of 1996, over the years, Iran-Pakistan relations have also had their share of tensions. Before the September 11, 2001 terrorist attacks, Iran and India supported the Northern Alliance, the chief rival to Pakistan-supported Taliban regime, in Afghanistan. Second, Iran and Pakistan have indirectly supported sectarian violence against each other by supporting Shiite and Sunni militant organizations. Third, while US-Iran relations deteriorated over the 1980s US-Pakistan relations reached a high point in the 1980s in their joint support for *mujahideen* – precursor to the Taliban – against the Iranian backed Northern Alliance in Afghanistan; perhaps in retaliation, Iran carried favor from then Soviet ally India by hurting US and Pakistani interests in Afghanistan.

Five years after the Taliban, Pakistan's proxy, took control of most of Afghanistan, terrorists trained in Afghan camps boarded American commercial planes, turned them into kamikaze missiles and wreaked havoc on US soil. The terrorist attacks of September 11, 2001 changed everything. Iran, Pakistan and India pledged support to win the Global War on Terror. Pakistan was offered billions of dollars in economic and military aid, India would soon secure better US market access and the possibility of civilian nuclear technology exchange; and Iran – at least until 2003 when a hostile regime in neighboring Iraq was destroyed by the United – began efforts toward détente. All three countries thus renewed negotiating the IPI project.

Positive Milestones

Since the late 1990s Iran, Pakistan, and India began to consider the IPI as the “Peace Pipeline” to resolve contentious geopolitical issues. In early 2005 India and Pakistan signed a series of accords – Confidence Building Measures (CBMs) – including the easing of visa restrictions; the launching of a “Peace Train” between the divided region of Kashmir, and Lahore and Delhi; signing various trade agreements; and creating Nuclear Weapons Supervision and Regional Terrorism Task Forces⁶. By late 2006, India, cognizant of its rising energy demands, was determined to build the IPI notwithstanding US promises of civilian nuclear technology. Then French Total announced that it would invest in the Iranian energy market despite US sanctions.

Brushing U.S. pressure aside in February 2007 India, after months of negotiations on the gas prices and transit fees, accepted a 45% reduction in the price offered by Iran from \$8 to \$4.25m per BTU. Under this agreement, Pakistan could receive \$1.5m per BTU in transit fees and have access to Iranian gas via extensions as shown in Figure 1.

⁶ Mahmood, Afzaal (2005) “Politics of the Pipeline” *The Dawn* July 23, 2005

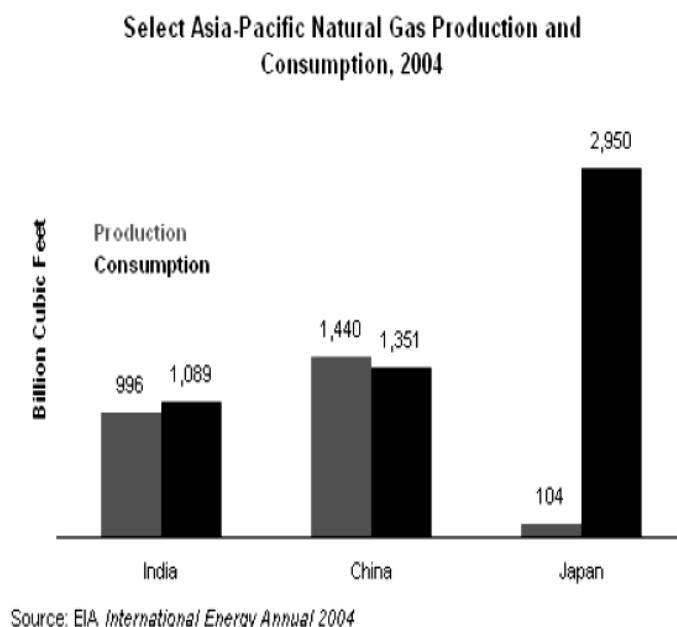
Sound Economics

The IPI aims at achieving the economic goals of all three participants. India has 38 trillion cubic feet of proven reserves of natural gas. Since the early 1990s, India's economy has grown rapidly and consistently, increasing energy tremendously. According to the US's Energy Information Agency's (EIA) report India's natural gas consumption was more than 1,000 Billion Cubic Feet (BCF) and production approximately 996 BCF in 2004⁷ and consumption had outpaced production further by 2006 at 1,350 BCF and 1,065 BCF respectively⁸. Projections by experts state the Indian energy consumption will double by 2025 with local production struggling to catch up⁹. (See Figure 2).

Besides IPI India is expected to take part in the proposed Turkmenistan-Afghanistan-Pakistan-India Pipeline. There is also some talk of a gas pipeline from Bangladesh, and new discoveries of natural gas inside India has brought some hope, but IPI is still the most economically viable option for India.

In addition to economic viability, India's environmental record has worsened over the last decade of unfettered economic growth; its over-dependence on coal has already come under scrutiny by western countries under tight carbon emission controls. Thus, many Indian economists believe that since only 6% of the total 112.8 million metric tons of carbon emissions from India are from natural gas versus 67% from coal, it would be prudent to diversify India's energy portfolio to include more natural gas via pipelines such as the IPI.

Figure 2. Asia Pacific Natural Gas Production and Consumption



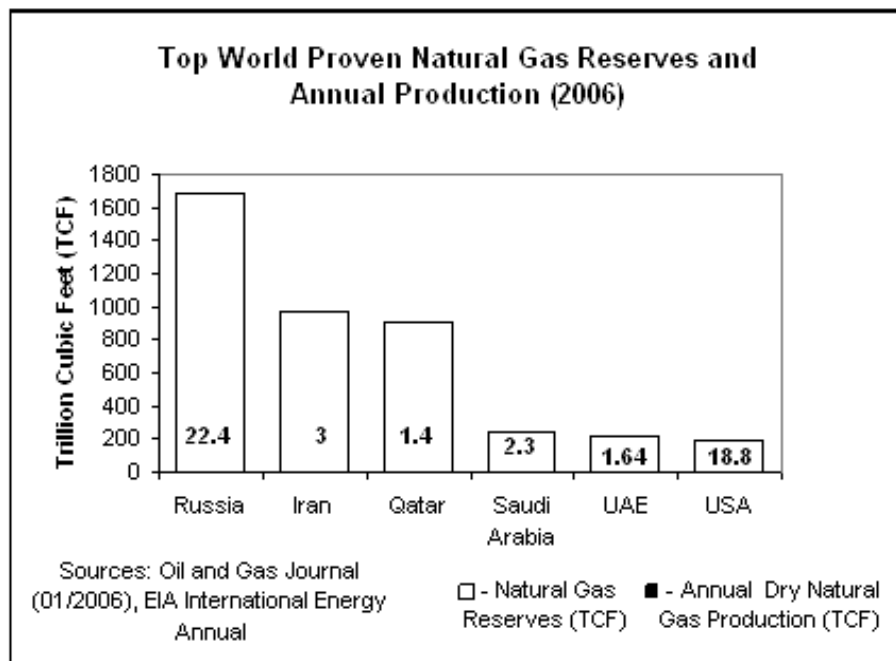
⁷ Energy Information Administration, Country Analysis Briefs, India, January 2007.

⁸ See the US Energy Information Agency, at http://tonto.eia.doe.gov/country/country_energy_data.cfm?fips=IN

⁹ Progress on gas pipeline. *The Dawn* May 10, 2005

Iran's problem is not its energy needs but a caged economy. After years of sanctions from the United States, such as the Iran-Libya Sanctions Act of 1996, and others due to its pursuit of nuclear weapons, Iran's economy desperately needs new life. Iran has 970 TCF of proven natural gas reserves and 80% of its exports are energy products such as oil and gas¹⁰. Iran has one of the largest oil and natural gas reserves in the world but the least amount of foreign direct investment. While rising oil prices have helped the Iranian economy only stable, secure and long-term economic/trade commitment such as the IPI can provide sustainable relief to the Iranians. See the figure 3.

Figure 3. Top World Proven Natural Gas Reserves and Annual Production



The transit country, Pakistan, has 28 TCF but uses more natural gas as part of its energy mix than Iran or India. More than 50.3 % of all Pakistani energy needs are met by natural gas and approximately 30% by oil¹¹. Demand is expected to rise while domestic production is expected to decrease in the next 15-20 years. Economic growth as measured by GDP has averaged at 5.5% since 2002 putting increasing pressure on domestic natural gas production. In 2008 Pakistan faces a very serious energy deficit and the IPI is seen by many experts as an important part of the solution (see Figure 1.4). In addition to tackling internal economic ills, the IPI also carries the potential to resolve age old geopolitical tensions between Iran, Pakistan and India.

¹⁰ Energy Information Administration, Country Analysis Briefs, Iran, January 2007.

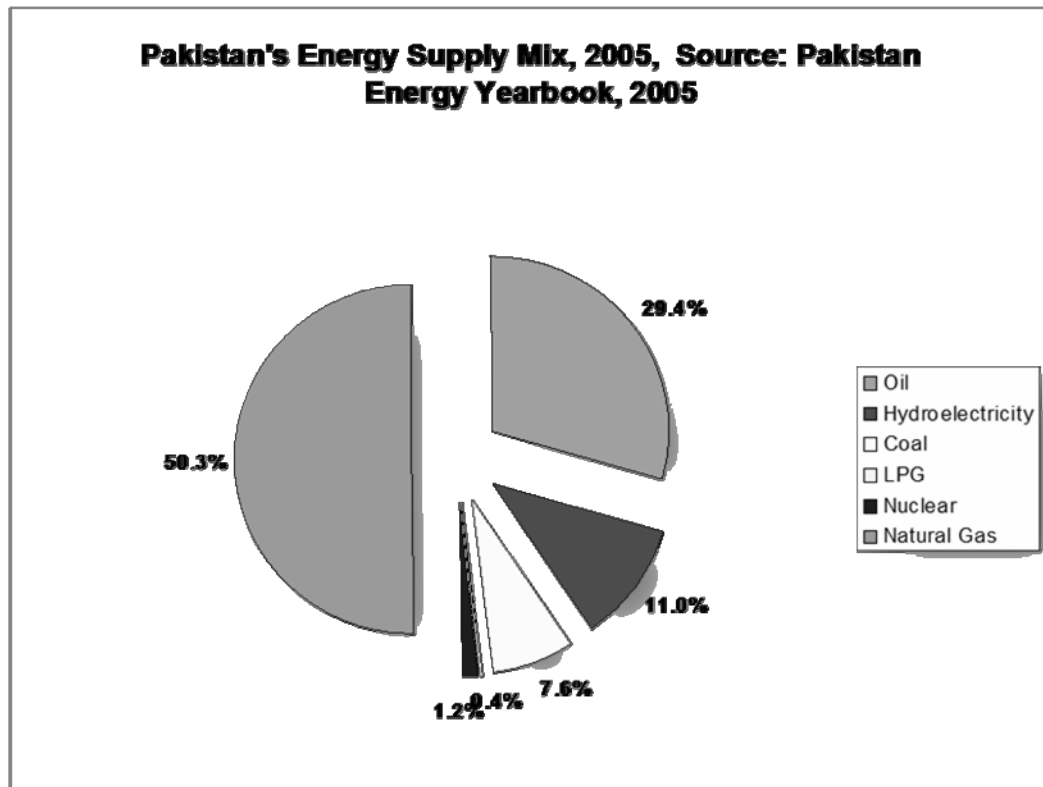
¹¹ Energy Information Administration, Country Analysis Briefs, Pakistan, January 2007. For a comprehensive overview of Pakistan's energy sector reforms see Robert M Hathaway & Michael Kugelman, 'Energy Band-aids'. *The Daily Times*, May 21, 2008, and the forthcoming 'Powering Pakistan: Meeting Pakistan's Energy Needs in the 21st Century,' by the same authors.

The IPI – Geopolitics and Security

India- Pakistan Relations

Both countries have suffered militarily, politically, and economically due to the original sin of the division of Kashmir during the Indian-subcontinent's division in 1947. Three major wars were fought and two major skirmishes with the potential of a full scale nuclear showdown – all in the name of a land dispute that has hampered

Figure 4. Pakistan's Energy Supply Mix



socio-economic development on both sides besides other factors. While Pakistan frequently backs Kashmiri insurgents on the moral principle of freedom struggle, India considers such support as state-sponsored terrorism. Both countries play the blame game in accusing the other of meddling with internal affairs through spy agencies – the ISI of Pakistan and RAW of India. Resolving the Kashmir issue is paramount for any long-term economic agreement between India and Pakistan. In the short run, however, prior agreements under the threshold of the Kashmir dispute, such as the Indus Water Treaty of 1960¹² provide precedents that support the building of the IPI.

Shia-Sunni Tension in Iran and Pakistan

India and Pakistan are working towards a workable peace but the recent wave of resolving issues was not always present. In the past Pakistan tried to play the religion

¹² Cohen, Stephen (2005) "America's Role In Asia" Brookings Institution Press 2005.

card with Iran by supporting the Muslim brotherhood between the two countries. However, the inherent contradictions in Pakistan's policies such as past support for the Taliban regime, and lack of protection of Pakistani Shiites, and Pakistani intelligence agencies' support for sectarian violence inside Iran, have made the religion card useless. Moreover, India has played the religion card better by touting the large Shiite minority inside Indian coexisting peacefully; and by emphasizing the rich and historic India-Iran relations.

Baluch Problem

As mentioned earlier in the last few years the Pakistani army has waged a war against separatist warlords of various Baluch tribes in the Baluchistan province. The IPI will pass through Baluchistan and this region contains most of Pakistan's existing natural gas reserves and current natural gas infrastructure. While the death of Nawab Bugti in 2006 has decreased terrorists' attacks, security for a possible pipeline running through an area prone to terrorist attacks is still an imperative concern¹³. However the possibility exists that revenue from the pipeline could be used to facilitate the development of Baluchistan opening the door to progress on the Baluchi problem.

Possible US Attack on Iran

The increasing possibility of a U.S. attack on Iranian nuclear sites or on Iran more broadly could, however, seriously stall the IPI negotiations. In addition, if the U.S. attacked Iran during or after the completion of the IPI South Asia may enter a new era of energy insecurity.

Conclusion

The IPI project is economically viable for all three countries, and has the potential to increase wealth and job opportunities for all three countries, not least in the areas through which the pipeline would pass. By requiring co-operation and building shared-interest the IPI could promote inter-regional cooperation between Iran, India and Pakistan, raising the possibility of the resolution of age old geopolitical and security issues of concern between the three nations. It is in the West's interests to support this development as a conflict resolution measure which could pave the way for deeper economic co-operation and interdependence and thus for stability and peace in the region.

¹³ Subohi, Afshan (2008) "Security Risks to Gas Pipeline" *The Dawn*, April 21, 2008.