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## **POLITICAL ECONOMY OF IRAN-PAKISTAN-INDIA (IPI) GAS PIPELINE**

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## **Introduction**

Energy security, meaning the sustainable and uninterrupted supply of energy at all times at an affordable price is in one way or another interlinked with a number of other global issues such as climate change, development, and most importantly armed conflict. Energy security not only affects the economic and foreign policies of countries but shapes regional geopolitics. No matter what alternative energy sources are developed in times to come, hydrocarbons (especially oil and gas) are likely to remain the bulk of energy sources for the foreseeable future. The uneven distribution of supply and demand of hydrocarbons in the world<sup>1</sup>, along with an unprecedented increase in demand from China, India and Pakistan's rising economies, will have repercussion, not only for the hydrocarbon markets but also for the geopolitics of South Asian region and the wider world.

Given this backdrop, the analysis in this paper of the Iran-India-Pakistan (IPI) gas pipeline will focus on two dimensions: First the economic issues and secondly the geopolitics of the region. The paper looks in detail at the geopolitics of energy and how energy security is now playing a major role in international relations in South Asia. It also engages with the foreign policy dilemma India and Pakistan face regarding their global and regional priorities in light of the U.S.-India nuclear deal, India-Pakistan peace process, U.S. embargo on Iran, and the "war on terror".

## **The geopolitics of energy in International relations**

The focus of world politics is gradually shifting from the North-Atlantic to the Asia-Pacific and now the Indian Ocean. The notions 'Asia rising', 'Dragon & Elephant', 'the new great game' etc. are mere expressions of a drastic and rapidly changing global political economy. Southwest and Central Asia are home to one fifth of the world's population, half of the world's oil & gas resources, two nuclear powers (and one in making), and two open ended international wars (Afghanistan & Iraq). In addition the region is home to world's most ancient civilizations, one of the top five economies (\$PPP) as well as the largest emerging markets with huge potentials for

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<sup>1</sup> About 80% of world oil & gas reserves are concentrated in a belt from Russia to Nigeria centering on Iraq, Iran, and Saudi kingdom, while about 60% of demand comes from OECD and 10% from Non-OECD Asia including India & China.

investments. As Asia has become more important, there has been renewed and increased great power involvement in the region. The US' policy with regard to West and Central Asia 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 U.S.'s national interests. Though not the focus of this paper, the US' presence in the region and increased involvement with Pakistan and India has to be born in mind when looking at the issues of energy politics in Asia.

The geopolitics of energy has become of increasing importance in determining foreign relations, as developing countries need to secure energy supplies in order to maintain economic growth. The volatility of the oil market has had sever repercussions on developing countries as price hikes lead to less competitive productivity and an increase in trade deficits. This is particularly a risk for India and Pakistan who do not meet their own needs with either domestic oil or gas supplies. As a result India's age-old priority of *swadeshi* or 'self-sufficiency' is no longer a feasible goal and regulating relations with states who can provide the well needed gas and oil is seen as central to India's new foreign policy. But it is not only the hydro-carbon rich states which are of importance, as any pipeline would have to cross India's immediate neighbours with whom relations have been at best cordial, and often quite a lot worse. Both on India's eastern flank relations with Bangladesh need to be improved as well as on the western border where peace with Pakistan needs to be secured in order for the energy supply to be secure and uninterrupted. Pakistan faces same problems with an addition of the Afghan conflict at its borders and its ambivalent relations with the United States. So 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 globalisation 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.

## **Global and South Asian Energy outlook**

There is an established correlation between energy use and economic development: as the countries grow, they need to use increasing amounts of energy. The world's average growth is estimated at 3.8% over the next 27 years resulting in at least a 71% increase in world primary energy consumption. Non-OECD Asia including India and China would account for three-fourth of this increase. However developing economies like India and China are growing faster than many projections, implying that primary energy demand in non-OECD Asia could more than triple over the same period.

Fossil fuels (oil, gas & coal) are the primary sources of energy across the world accounting for 86% of total world energy consumption and will remain so over next three decades. However, oil consumption is expected to go down from 38% to 33% while gas and coal consumption will rise from the current level of 24% to 26% and 27% respectively. Oil demand may decline further if the prices remain higher. In this situation natural gas becomes the fuel of 21st century, being cheaper than oil and cleaner than coal.<sup>2</sup>

As indicated in table 1, both India and Pakistan are among the lowest per capita energy consuming countries in the world with high-energy intensity and import dependency. Both countries have low GDP per capita, high under/unemployment, inflation and around 70% of their populations living below \$2 a day. In both countries a large population depends on biomass (India 23%, Pakistan 30%) and only half of the total households have access to electricity.<sup>3</sup> The graph in Figure 2 depicts energy intensity vs. energy imports (as percentage of total exports) and exemplifies dependency and vulnerability of an economy: both India and Pakistan lie in the “high risk” area.

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<sup>2</sup> All data on energy in this paper, unless otherwise stated, is from Energy Information Agency's International Energy Outlook 2006 and country Briefs. <http://www.eia.doe.gov/> retrieved in April 2007.

<sup>3</sup> “Regional Energy Security for South Asia 2006”, USAid/South Asia Regional Initiative, p. 2-7

**Table 1: Economic and Energy Indicators 2006-07**

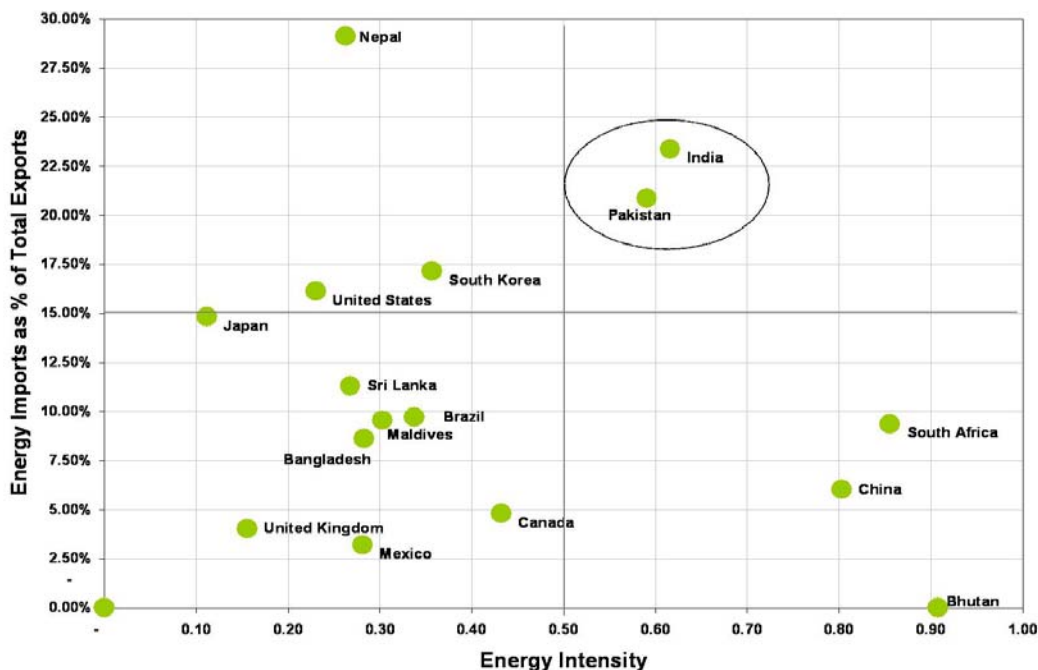
Item	Unit	India	Pakistan
Population	million	1,121 (2 <sup>nd</sup> )	168.8 (6 <sup>th</sup> )
Area	million sqkm	3.28 (7 <sup>th</sup> )	803, 940 (36 <sup>th</sup> )
GDP (PPP)	billion US\$	4.04 (4 <sup>th</sup> )	475.6 (25 <sup>th</sup> )
GDP growth		8.50%	7.50%
GDP per capita (PPP)	US\$	3,737 (118 <sup>th</sup> )	3,004 (128 <sup>th</sup> )
HDI		0.611 (126 <sup>th</sup> )	0.539 (134 <sup>th</sup> )
<b>2004-05</b>			
Coal % of primary Energy		50%	5%
Oil % of primary Energy		35%	27%
Gas % of primary Energy		9%	55%
Proven Oil reserves	mtoe	124	210
Oil consumption (annual)	b/d	846,000	60,000
Oil imports % of consumption	thousand b/d	2,630	350
Proven Gas reserves	tcf	38	28.2
Gas consumption (annual)	bcf	996	967.6
Gas imports % of consumption (annual)	bcf	1,089	967.6
Fuel Imports % of merchandize imports		36.28%	21.54%
Energy Intensity	Btu per \$ (PPP)	2.10	2.54
Energy consumption per capita	mBtu	14.5	12.4

*Data Source: EIA, CIA fact book USAid/SARI*

Nevertheless, besides energy demand and oil dependency, price is another important factor for considering gas as a “fuel of choice” for both countries. If imported gas costs \$4.93 mBtu (at US\$60 per barrel), it translates into \$28.5 per barrel of oil equivalent – less than half of current oil prices.<sup>4</sup> Since both countries face similar development challenges it is in effect worthwhile to put an effort into cooperative solutions that not only ensure mutual energy security but also provide peace dividends by interlocking the economies.

<sup>4</sup> Calculated by the author using EIA energy calculator, can be accessed at [http://www.eia.doe.gov/kids/energyfacts/science/energy\\_calculator.html](http://www.eia.doe.gov/kids/energyfacts/science/energy_calculator.html)

**Figure2: Energy Crisis in India and Pakistan**



*Source: USAid/SARI; Presentation on Regional Conference 2006*

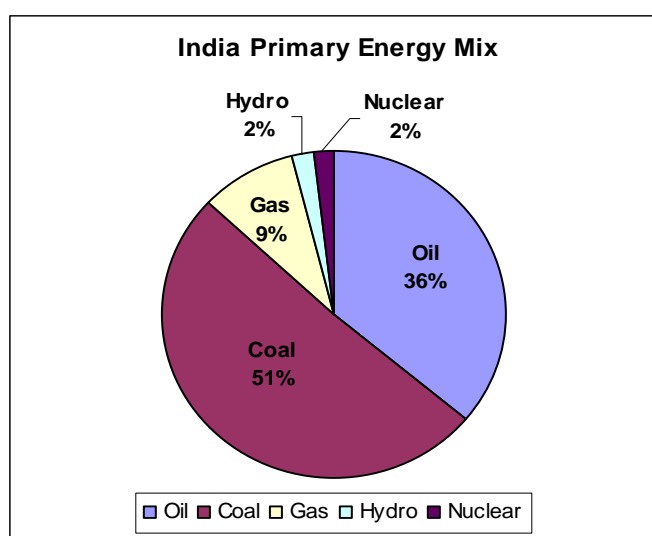
**Indian Energy Outlook**

India with a population of more than one billion is one of the fastest growing economies recording an average 8-9% growth (see Table 1). The energy market as a whole is highly regulated and controlled by the Public Sector Utilities (PSUs) with a complex web of regulatory regimes. India being an energy supply constrained economy, sustainability of development will largely depend on the availability of affordable, adequate, and reliable energy and needing massive investments in social and physical infrastructure.

Indian primary energy demand is expected to grow by 6% at an estimated 7-8% GDP growth over the next decade. Coal is the largest source constituting 51% of the total primary energy basket; the rest includes 36% oil, 9% gas and 4% nuclear and renewable (see Figure 3). India imports 75% of its 960 million barrels of oil per annum, raising India’s vulnerability to volatile oil markets.

The Reserve Bank of India reports that every one-dollar rise in the international price per barrel of crude oil adds US\$600 million (around Rs. 28 billion) to the country's import bill, which has already grown four fold over the last five years<sup>5</sup> and has added '15 basis points to wholesale price index as a direct effect and another 15 basis point as an indirect effect in absence of any countervailing policy intervention'.<sup>6</sup> All these factors adversely affect the growth of developing economies. According to the International Energy Agency, a US\$10 rise in crude prices (from US\$25 to US\$35), would reduce India's GDP by 1% and other poor countries' by up to 1.6%.<sup>7</sup> Hence there is an acute need to diversify types as well as regional sources of energy to ensure continuous availability of energy at affordable prices.

**Figure 3: India Primary Energy Mix**



*Data Source: Indian 11<sup>th</sup> Five Year Plan; Energy Working Committee Report; Integrated Energy Policy; Planning Commission of India*

<sup>5</sup> Paranjy Guha Thakurta "High oil prices would hit Indian economy", Business Line, 20 March 2004, <<http://www.thehindubusinessline.com/2004/03/20/stories/2004032000240800.htm>> (Last accessed 5 July 2007)

ADB, Development Outlook 2006, Economic Trends and Prospects in Developing Asia

<sup>6</sup> Leena Srivastava and Neha Misra "Promoting Regional Energy Cooperation in South Asia", Energy Policy (2007): 3. cited (ADB Development Outlook 2006, "Economic Trends and Prospects in Developing Asia")

<sup>7</sup> "Emerging oil price scenario and Indian industry", Federation of Indian Chambers of Commerce and Industry, December 2004, <<http://www.ficci.com/surveys/FICCI-oil-survey-dec2004.pdf>> (accessed 5 July 2007)

Many policy makers have pointed at hydro and nuclear power as alternatives. However the fact is that even if India realizes 100% of its 150,000 MW hydro-electric potential, a six fold increase in installed capacity of 25,000 MW, its share in the total primary energy mix still would be not more than 5-6% and same stands true for other renewable energy sources. Similarly, 'even if a 20-fold increase takes place in India's nuclear power capacity by 2031-32, the contribution of nuclear energy to India's energy mix is also, at best, expected to be 5-6%'.<sup>8</sup>

Coal as an alternative fuel is also not free from challenges. Although India has the world's fourth largest coal reserves, domestic supplies fall short of demand and almost 10% is imported. Coal is comparatively cheap vis-à-vis gas for power generation, but the cost of infrastructure investments are comparable to those of gas. There are other issues as well, including climate change and economic viability of extraction, hence 'large estimates of total coal resources give a false sense of security'.<sup>9</sup> A deregulated market and an increased demand within India and other parts of the world will eventually determine the real price of coal in the future.

India's proven natural gas reserves are 38 tcf (or 1.075 tcm).<sup>10</sup> India produces 85 million metric standard cubic meters per day (mmscmd) or 1.08 tcf p.a. of natural gas, almost half of potential demand.<sup>11</sup> The natural gas demand is expected to reach about 400 mmscmd by 2025 (see Figure 4).

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8 Planning Commission, Government of India, Draft Report of Expert Committee on Integrated Energy Policy 2005, p.viii

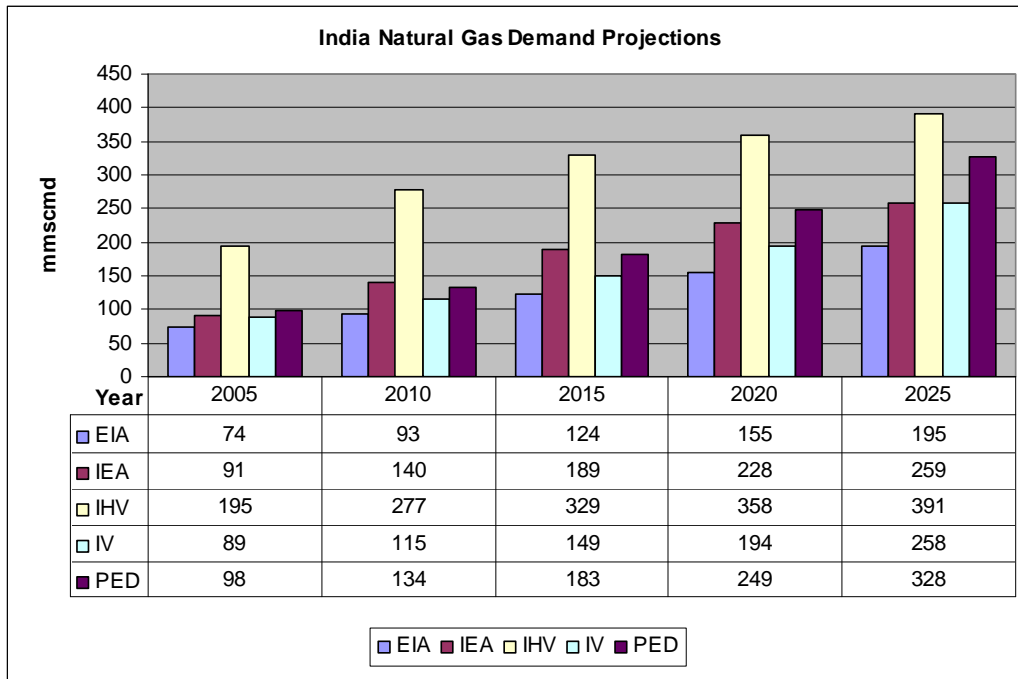
9 Ibid., p.14

10 1 Trillion Cubic Feet (tcf) = 0.0283 Trillion Cubic Meter (tcm)

11 Srivastava S. "India grapples with energy", Asia Times online, 24 March 2007, [http://www.atimes.com/atimes/South\\_Asia/IC24Df01.html](http://www.atimes.com/atimes/South_Asia/IC24Df01.html) (Last accessed 05 May 2007)



**Figure 4: India Gas Demand Projections**



*Data Source: Indian 11<sup>th</sup> Five Year Plan; Energy Working Committee Report; Integrated Energy Policy; Planning Commission of India.*

There have been two contentious and important issues in India in the context of gas and pipeline imports: demand/supply projections and pricing. Much of the controversy over demand/supply estimates, besides political motivations, arises from employing different econometric models and the inherent price sensitivity of the gas market. However, there is no substantial difference in the projections from different agencies except India Hydrocarbon Vision (IHV 2025)<sup>12</sup>. The IHV projections (see Figure 4) are substantially higher vis-à-vis other models, because they take into account the existing supply and demand gap which other models do not incorporate. The eleventh (XI) five year plan (2007-12) acknowledges this gap which is currently managed by arbitrary rationing, resulting in an under utilization of the installed capacity in the fertilizer as well

<sup>12</sup> Other projections from private corporations are not included due to incompatibility in comparison, which are close to IHV 2025 projections.

as the power sector.<sup>13</sup> The IHV projections also presumed an active government role for the development of gas infrastructure and imports, a vision which was reflected in the tenth (X) five year plan (2002-07). Nevertheless, the investment targets envisaged in the tenth (X) five year plan could not be met and in the eleventh (XI) five year plan pipeline imports are not even part of the targeted supply.<sup>14</sup>

The pipeline targets were dropped in the eleventh plan as the government claimed that India would be a gas surplus country at the end of the XI plan, thanks to the enormous discoveries by private and public energy companies in the Krishna-Godavari basin on the east coast.<sup>15</sup> However, before the discoveries were certified, Gujarat State Petroleum Corporation (GSPC) and Oil & Natural Gas Corporation (ONGC) have lowered their estimates from 20 to 1.38 tcf and from 21 to 2 tcf respectively.<sup>16</sup> Apparently there is no guarantee that the anticipated 74 to 94 mmscmd supplies could be realized (see Figure 5) and whatsoever new finds, once brought to the market and infrastructure put in place, will only act as a catalyst to spur further demand.<sup>17</sup>

Liquefied Natural Gas (LNG) is another option for India to meet increasing demand. India had planned twelve LNG plants in the late 1990s but only four have been built and only two are operational. Further construction has been halted.<sup>18</sup> Petronet, a consortium of public and private sector companies, is currently importing LNG from Qatar under a 25-year contract. Another 25-year deal with Iran to supply 7.5 million tons of LNG per year fixed the wellhead price at US\$2.97 mBtu when the crude price was hovering around US\$30. This deal is being renegotiated in the wake of crude prices having almost doubled now. The Qatar gas costs US\$2.53 mBtu plus an

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13 Planning Commission, Government of India, Draft Report of Expert Committee on Integrated Energy Policy 2005, p.34,49

14 Ibid.

15 Includes Oil and Natural Gas Corporation (ONGC), Gujarat State Petroleum Corporation (GSPC), and Reliance Industries Ltd. (RIL)

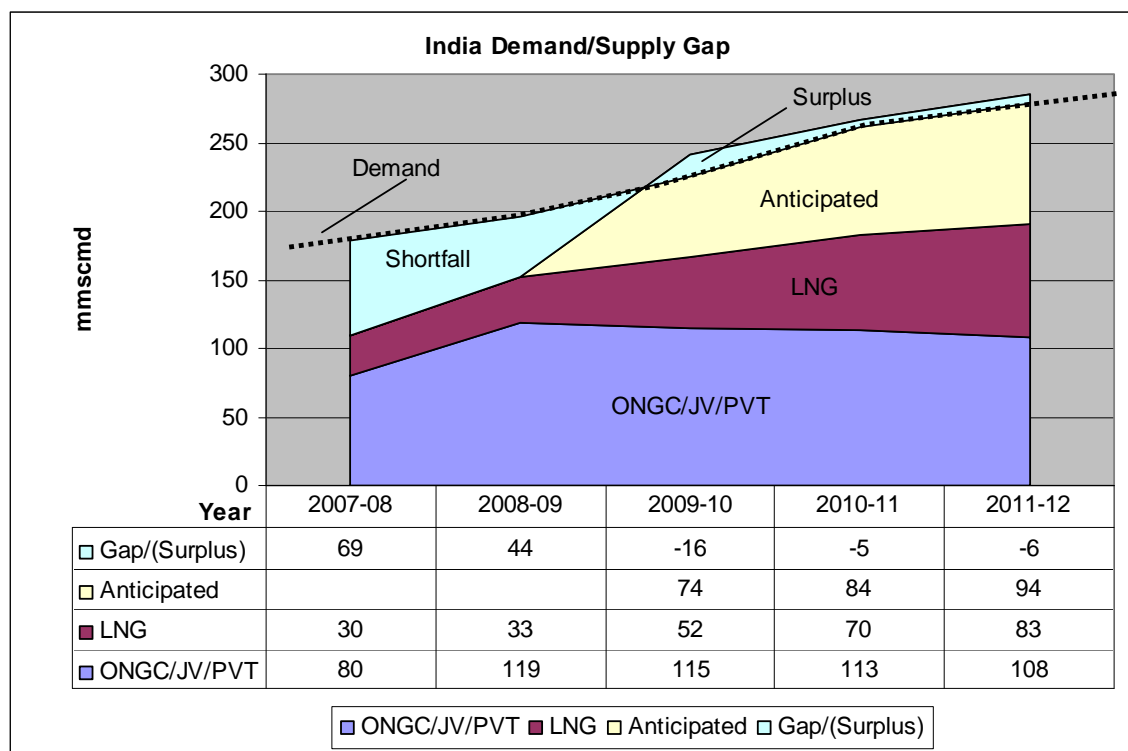
16 Srivastava S. "India eyes military favours for Myanmar Oil", Asia Times online, 20 July 2007, <[http://www.atimes.com/atimes/South\\_Asia/IG20Df01.html](http://www.atimes.com/atimes/South_Asia/IG20Df01.html)> (Last accessed 25 July 2007)

17 The same views have been expressed repeatedly by many senior officials and industry experts.

18 David Temple, The IPI pipeline; Intersection of energy and politics, Institute of Peace and Conflict Studies research reports, (April 2007)

additional US\$1.5 to US\$2 mBtu for re-gasification, tax, and transportation. Both LNG contracts, and anticipated on spot purchases still would not be able to offset the demand-supply gap.<sup>19</sup>

**Figure 5: India Gas Supply and Demand Gap Projections**



*Data Source: Indian 11<sup>th</sup> Five Year Plan; Energy Working Committee Report; Integrated Energy Policy; Planning Commission of India.*

The price of gas in the Indian market, which is highly subsidized and controlled through the Administered Price Mechanism (APM), varies from US\$1.93 mBtu to US\$9. While the government bodies like GAIL supply gas to the fertilizer and power sector at APM prices of below US\$2.5 mBtu, the joint ventures and private supplies under the New Exploration Licensing Policy (NELP) fall between US\$3.5 to US\$4.5 mBtu excluding an additional US\$1 to US\$1.5 mBtu for transportation and taxes. On the other hand, Shell was able to sell its on spot LNG imports at

<sup>19</sup> ibid

US\$7 mBtu.<sup>20</sup> Petronet on spot LNG is priced at \$7.6 mBtu, GAIL's on spot LNG shipment from Algeria's cost \$9.28 mBtu.<sup>21</sup> With the rising demand puts pressure on the LNG market, the future LNG on spot prices could cost any where between US\$7 and US\$10. The government is already pursuing a fast track deregulation policy and has planned to switch to market prices. The government, after a long debate, recently approved RIL's US\$4.2 mBtu wellhead price under NEPL, which simply indicates that further discoveries will go beyond this price.<sup>22</sup> However, the power and fertilizer sectors would have to adjust to the market prices sooner rather than later, as public sector supplies will not be able to meet demand. How much of this increased burden will be born by the government and how much will be shifted to the end customer is the actual question the government should ponder upon.

India will have to pursue an aggressive strategy of oil and gas diplomacy if it is to compete in the fossil fuel market. Finding a successful energy management structure in the short term would allow India time to harvest viable renewable sources. Since hydro, nuclear and renewable energy production will take decades to develop, India will be forced to rely on fossil fuels to meet the majority of its energy needs, especially in the short term.

### ***Pakistan Energy Outlook***

Pakistan faces similar problems. In the last 5 years Pakistan's economy has been growing on average 7%. Energy demand is estimated to grow steadily. However, Pakistan's energy mix presents a different picture and is more dependent on gas compared to India (see Figure 6). Natural gas is the largest source of primary energy comprising 51% of total primary energy, the rest being oil - 29%, hydro - 11%, coal - 8% and nuclear - 1%.

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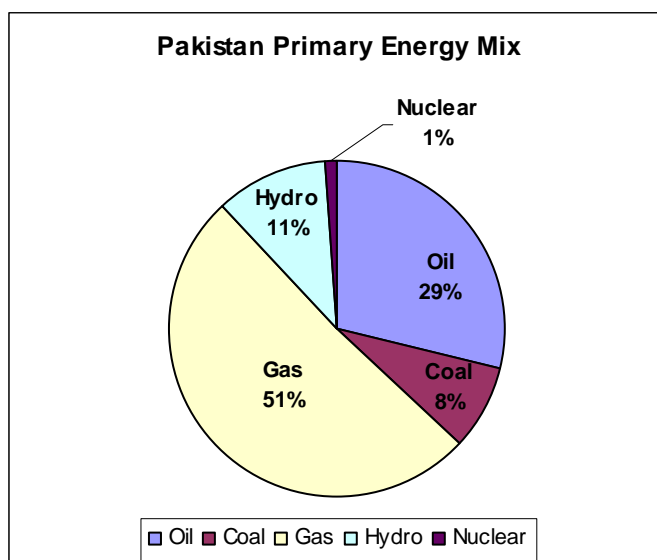
20 Gaurav Raghuvanshi, "High prices hit Shell Hazira plans to sign new customers", 29 September 2005, <<http://www.thehindubusinessline.com/2005/09/29/stories/2005092902020200.htm>>, (accessed 27 July 2007)

21 "Spot Cargos Spark LNG Prices", The Times of India, 15 June 2006, <<http://timesofindia.indiatimes.com/articleshow/1648613.cms>> , (accessed 27 July 2007)

22 "India says gas wellhead price not capped for all", Reuters India, 17 September 2007, <<http://in.reuters.com/article/businessNews/idINIndia-29582420070917>>, (accessed 17 September 2007)

Pakistan imports 80% of its 127.75 million barrels oil per annum, constituting one quarter of its import bill and raising Pakistan's vulnerability to the volatile oil markets. This was the very reason when in late 1990s the government decided to move away from oil dependency. The government provided incentives for the transport and power generation sector to switch to natural gas. According to a private study commissioned by the government the natural gas demand is expected to grow further from the current level of 113 mmscmd to 350 mmscmd in 2025 (see Figure 7). Even by the conservative standards of the Midterm Development Framework (MTDF), the demand will almost double from current levels by 2015.

**Figure 6: Pakistan Primary Energy Mix**



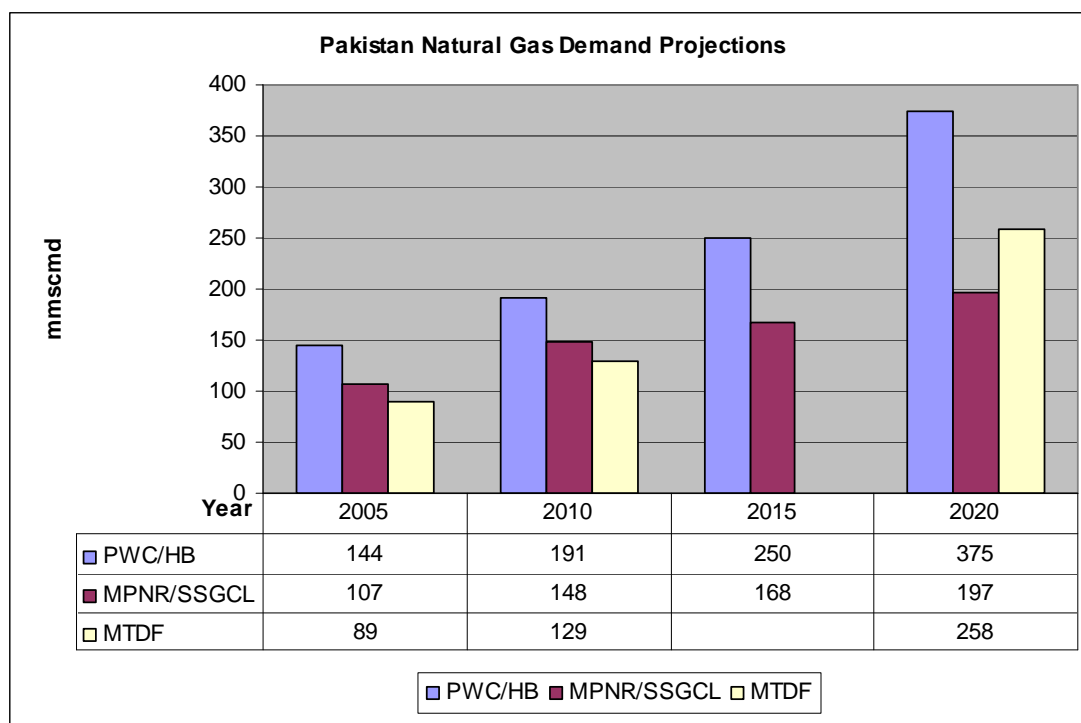
**Data Source: Pakistan Energy Year Book 2006**

Pakistan's gas sector is very well established and has one of the most extensive infrastructure in the developing world with 8,200 kilometres of transmission network. The largest consumers of gas are power (36.4%) and fertilizer (21.6%), followed by industries (19.1%), households (17.8%) and commercial (2.7%). Although Pakistan has 28 tcf of (792 billion cubic meters), the demand-supply gap will rise from the current 10 mmscmd to 90 mmscmd in 2015 according to moderate demand estimates (see Figure 8). To meet this gap Pakistan would have to import natural gas through LNG imports or pipeline. While the Sui Southern Gas Company (SSGCL) has been

sanctioned for an LNG terminal in Karachi, the real emphasis is on pipeline imports, because LNG imports will be costly and insufficient. The natural gas prices have been linked with crude oil in Pakistan. There are multiple price regimes for different consumers and different suppliers ranging from US\$1.9 to US\$6.5 mBtu. However, the power, industry and transport sectors are absorbing about US\$4 to US\$5 mBtu. The only highly subsidized sector is fertilizer where price ranges from US\$0.7 to US\$2 mBtu.<sup>23</sup>

Given the demand and supply gap situation and prices, the Pakistani market seems more mature and ready to absorb high price imported gas, which can also free domestic resources to be used for the domestic and fertilizer sectors. The high dependence on gas and extensive infrastructure in Pakistan all point out that while India may have some expensive options to substitute gas, Pakistan simply does not have any other alternative but to import by pipeline.

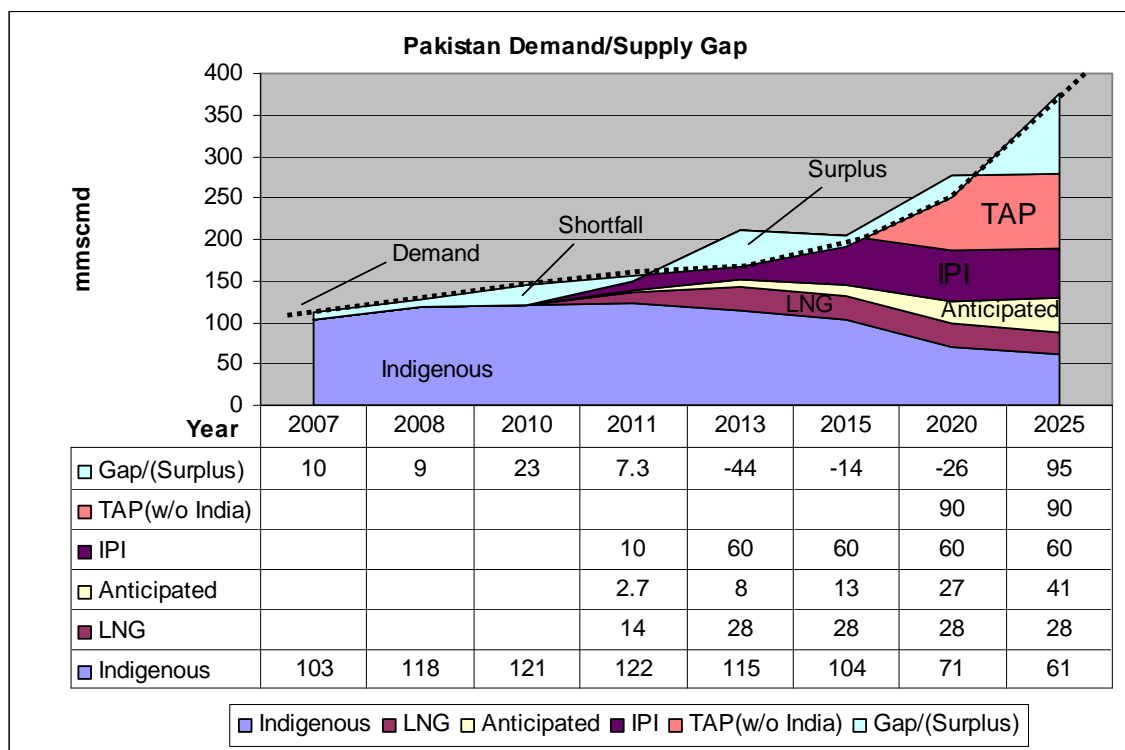
**Figure 7: Pakistan Gas Demand Projections**



<sup>23</sup> Pakistan Oil and Gas Regulatory Authority, <<http://www.ogra.org.pk>>

*Data Source: PWC/HB, MPNR/ SSFCL/ MTFD; Ministry of Petroleum and Natural Resources & Planning Commission of Pakistan.*

**Figure 8: Pakistan Gas Supply and Demand Gap Projections**



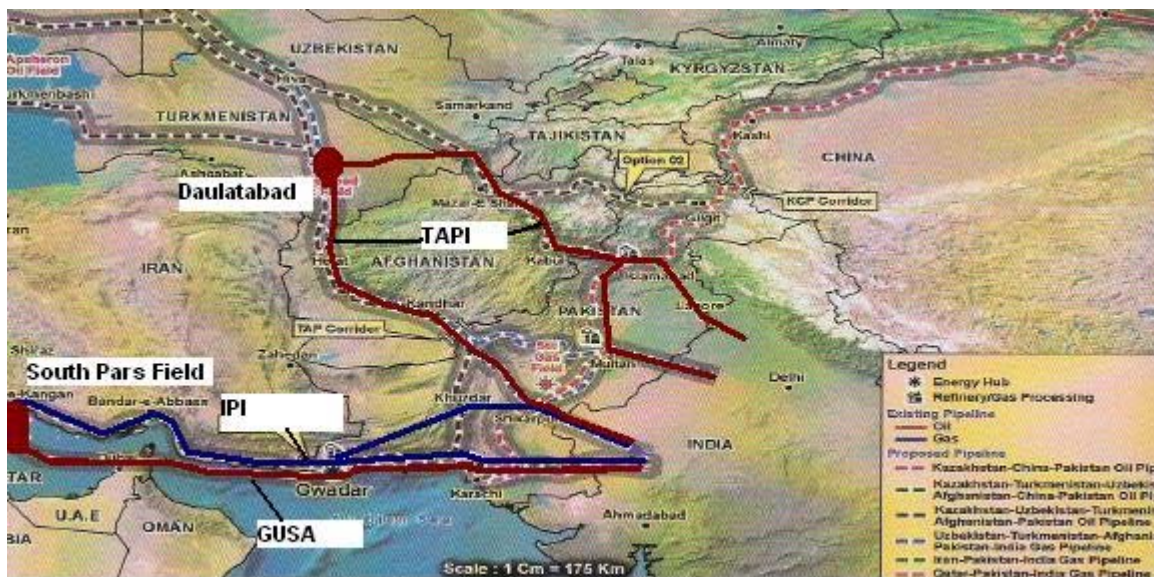
*Data Source: PWC/HB, MPNR/ SSFCL/ MTFD; Ministry of Petroleum and Natural Resources & Planning Commission of Pakistan.*

### The Iran – Pakistan – India (IPI) Gas Pipeline

With a total length of 2,775 km and at an estimated cost of \$7.4 billion the IPI pipeline is bound to change the face of regional politics in South Asia. The IPI pipeline which is expected to be completed within 3-5 years will pump 60 million standard cubic meters (mmsc) of gas everyday into Pakistan whilst India would receive 90 mmscmd. The pipeline starts from Assaluyeh, South Pars gas field, stretching over 1,100 km with 56 inch diameter, of Iranian territory before entering Pakistan and travelling through either Khuzdar-Multan or along the coastal line (see Figure 9), connecting to India. This project offers great opportunities to Pakistan, as the gas pipeline could

also set the course for possible oil and gas pipelines to China, especially since China in the past has expressed its willingness to import oil and gas via Pakistan. Iran has proven reserves of about 971.2 trillion cubic feet, the second largest in the world after Russia. The IPI's source, the South Pars field, contains 300 tcf with a current production capacity of 3.1 bcf/d.

**Figure 9: The IPI and TAPI Proposed Pipeline Map**



Source: SSGCL Annual Report 2006, Pakistan, Edited by Author.

The planned pipeline between Iran and India (IPI) has had some bad press due to the pressure put by the United States on India and Pakistan not to buy natural gas from Iran, which it considers a pariah state (or a member of the 'axis of evil'). Despite the U.S. concerns, in January 2005 India signed a US\$40 billion deal to import Liquefied Natural Gas (LNG) from Iran. The 25-year deal plans to import 7.5 million tonnes of LNG from Iran starting in 2009.

A heads of states agreement was signed in June 2005 for the US\$7 billion pipeline project and in August 2005 the Indo-Iran joint working group met in New Delhi. The meeting in Islamabad on



22-24<sup>th</sup> May 2006 saw the trilateral meeting at second secretary level.<sup>24</sup> The meeting discussed the technical, financial and legal aspects of the project besides issues of project structure, and a feasibility study including the route.<sup>25</sup> As recent as in May 2007, Indian foreign minister Mr. Mukherjee, during his visit to Iran, reiterated the Indian commitment with the project.

Iran, containing the world's second largest natural gas reserves after Russia as well as ranking as OPEC's second largest oil producer with 9% of the world's total reserves, has been increasing efforts to promote its gas exports in the international market.<sup>26</sup> South Asian countries like India and Pakistan stand to gain significantly from the gas trade with Iran, both in terms of economic benefits as well as regional conflict resolution.

The Iran-Pakistan-India pipeline (IPI) was a pioneering idea of Iran's Ali Shams Ardekani, then deputy foreign minister, and Tata Energy Research Institute's (TERI) Rajendra Pachauri, then Director General. After four years of different studies, India signed a MoU in 1993 with Iran.<sup>27</sup> However, due to security concerns the project was shelved and only re-emerged in the early 1990s when a discussion between Iran and Pakistan started with India joining in later. Pakistan actually extended its support for the IPI pipeline in 1994; however, Ms Bhutto's government remained unsuccessful in getting the army's support.<sup>28</sup> India also explored the feasibility of offshore, deep sea and shallow sea pipelines as alternatives to crossing through Pakistani territory. However the technological problems of a deep-sea (2400 meters) pipeline were difficult to overcome with the given technology. The shallow sea option along the Pakistan's coastal line, which would cross Pakistan's Exclusive Economic Zone (EEZ), was rejected by Mr Sharif's government due to Pakistani army and navy's security concerns<sup>29</sup>.

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24 Financial Express, 16.5.2006

25 The daily Dawn, 23.5.2006; <http://www.dawn.com.pk>

26 Shamila N.Chaudhary, "Iran to India Natural Gas Pipeline", 2000, TED Case Studies

27 Pandian S. (2003); 'The political economy of trans Pakistan pipeline; Assessing the political and economic risks for India'; Energy Policy 33 (2005)

28 ibid

29 ibid

Pakistan however signed an agreement with Iran in 1995 to build a pipeline from Iran's South Pars gas field to Karachi along the coastal line. Pakistan also, along with ADB and other US companies was persuaded to look at the Turkmenistan-Afghanistan-Pakistan (TAP) pipeline, which had support from both the USA and Pakistan Army. Later India was also invited to join the project. Since that time the IPI project was neglected for many years.

### ***Pakistan-Iran Relations***

Iran and Pakistan historically enjoyed friendly and cooperative, though not always smooth, relations. But more often the underlying reasons were external factors rather than implicit tensions such as Pakistan's relations with US, Arab states and Iran's friendly relations with India as well as opposing policies in Afghanistan. The only implicit irritant in the relations is increased sectarianism in Pakistan and the killings of *Shiites* during the 1990s.

Pakistan - Iran relations began with the former's emergence as an independent state following the Partition of India in 1947. Iran was the first to extend recognition to the new State. It established diplomatic relations with Pakistan in May 1948, and Pakistan's Prime Minister Liaqat Ali Khan visited Iran in May 1949. The Shah of Iran was the first head of state to pay a State visit to Pakistan in March 1950 and in the same month; a Treaty of Friendship was signed. Both countries were part of American cold war alliances, CENTO and SEATO. Even in 1960s, both countries looked at the possibility of forming a confederation.<sup>30</sup> In 1964, they formed Regional Cooperation for Development (RCD) organization with Turkey, which was renamed to Economic Cooperation Organization in 1985 and expanded in 1994 to include five states of Central Asia – Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan, Kirghizstan, and Afghanistan.

Iran's 1953 coup of Dr. Mussadaq's government organized by CIA was the first incident, which had lasting effects on Iran-US relations though the *Shah* remained on friendly terms with US.

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<sup>30</sup> Alam S (2004); Iran Pakistan Relations, Political and Strategic Dimensions; Strategic Analysis, Vol. 28, No. 4, 2004

Nevertheless, Iranian people and political activists, divided in socialists and Islamic revolutionaries, both remained wary of the US. A complete departure of the US – Iran cordial relations, after the Islamic Revolution in 1979, did not hurt relations with Pakistan, owing to their common antipathy to socialism and the Soviet invasion of Afghanistan.<sup>31</sup>

With the end of the Cold War and the US hegemony in the Middle East, Iran-Pakistan relations grew cold. While in the same period Pakistan's support of the Taliban government, which initially had the backing of the US, meant isolating Iran and posed serious challenges to its security and national interests. Iran coordinated with Russia, India and the Central Asian countries to counter Pakistani move in Afghanistan. The more Iran got involved in the Afghan conflict, the more it "turned into direct conflict with Pakistan." Finally, when the Taliban in 1996 took over and killed an Iranian diplomat, the friendly relations and cooperation was over.<sup>32</sup>

The socio-economic and political conditions in both Iran and Pakistan have been under tremendous pressures. Iran has been witnessing an intense internal power struggle between the conservatives and the liberals/moderates for many years now. It has also been under pressure from the US and the EU on its plans to acquire nuclear technology for possible weapons capability. Pakistan has been facing ethnic, sectarian, and extremism problems.<sup>33</sup>

The events of the 9/11 forced Pakistan back into the US led alliance. This time albeit fighting the "war on terror" rather than the "communist threat". The wars raging at Iran's eastern and western flanks have had their effect on the relations between the two countries. Especially the US agenda of isolating Iran and a possible threat of military attack from Pakistan's territory are the two profound concerns of Iran regarding Pakistan. However, Pakistan has categorically denied such possibility.

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31 *ibid*

32 Nazir Hussain, "Pak-Iran Relations in Post-9/11 Period: Regional and Global Impact", *Regional Studies*, Autumn 2002, XX(4), p.57.

33 *ibid*

### ***India-Iran Relations***

Iran and India share thousands years of history, culture, and trade relations. However, from the Indian partition in 1947 to 1979 their relations remained less than friendly, partly because of Iran's close ties with Pakistan and Iran's support for the Kashmir conflict. In addition, during the same period, Iran was a member of the American alliances and India was leading the non-aligned movement. Indian alignment with the Arab nationalist movements also had a cooling effect on their relations<sup>34</sup>.

The rapprochement process was slow and gradual with a brief lull after the Islamic revolution in 1979, starting from the Iranian moral support to India during the Sino-Indian war in 1962. The dismemberment of Pakistan in 1971 and the Shah's disaffection with the US also brought India and Iran closer.<sup>35</sup>

The real turning point in the relations was the early 1990s. Iran and India both supported the "Northern alliance" as opposed to Pakistan's support for Taliban in Afghanistan. Later both countries supported the US military led ousting of the Taliban regime. Iran enjoys good relations with the Karzai government in Kabul who is also dependent on Iranian support to remain in office. India and Iran have cooperated in Afghanistan reconstruction activities. Since the early 1990s India eyes the Iranian routes to access central Asian markets and building Iran's *Chahbahar* port just 200 km west of Pakistan's *Gwadar* port. Tehran sees India and China as its potential customers for oil and gas as well as a way out from the U.S. attempts to isolate Iran.<sup>36</sup>

The years 2003-2005 saw a further deepening of India-Iran ties. In the New Delhi Declaration (Jan 2003), both countries "decided to explore opportunities for cooperation in defence and other

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34 Buke S. M. & Ziring L (1990); Pakistan's Foreign Policy, An Historical Analysis; OUP, Karachi.

35 *ibid*

36 CRS Report for Congress; India-Iran Relations and U.S. Interests ; Foreign Affairs, Defence, and Trade Division; August 2, 2006

agreed areas, including training and exchange of visits.”<sup>37</sup> The IPI pipeline negotiations were renewed in the same period and a US\$40 billion LNG deal was signed to supply 7.5 million tonnes of liquefied natural gas (LNG) over the 25-years starting from 2009. However, in light of the high oil prices, Iran has asked for price renegotiations or the deal would be cancelled.<sup>38</sup> Nevertheless, many analysts argue, quite illogically, that Tehran’s move was a direct result of New Delhi’s votes against Iran in IAEA and UNSC on the nuclear issue. Though there was resentment in Tehran on the vote, it is unlikely that the Tehran administration would let the much needed billion dollars go for nothing.

### ***IPI on the agenda again***

The energy starving economies of India and Pakistan has no economically attractive alternative but to import gas, on the other hand, Iran needs markets for its unexplored gas reserves to support its declining energy sector and economy. The fact that India, Pakistan and Iran are discussing the feasibility of such a project is monumental in itself. It indicates a sharp shift away from previous Pakistani and Indian inter-regional and intra regional policies towards each other, where history and regional conflict have strained economic and foreign relations between the two. All three countries (Iran, Pakistan and India) will be forced to reassess their policies and policies towards conflicts such as Afghanistan and Kashmir as well as national security concerns and sectarian violence known to create destabilizing elements as far as national security is concerned. India and Pakistan as well as Iran will have to restrain their time old practice of creating strife and funding proxy wars in each other’s countries.

In challenging entrenched geopolitical, historical and strategic issues between the three countries themselves, as well as those of the whole regions, the gas pipeline venture is an example of how globalisation can bring economic interdependency and peace. The repercussions of the gas

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37 ibid

38 “India asks Iran to honour obligations”, The Hindu, 30 August 2006, <http://www.hindu.com/2006/08/30/stories/2006083008981200.htm> (accessed 5 June 2007)

pipeline project represent a case in point of 'the notion that multidisciplinary globalization is changing the face of regional politics and altering the social and political landscape of regions'.<sup>39</sup>

However the IPI pipeline must fulfill three criteria to become a reality: economic viability, logistic feasibility and political acceptability.

### ***Economic viability and logistic feasibility***

While pipeline is the most economically viable and technically feasible option, there have been two major issues regarding the economic viability of the project: the price of gas and the financing of the construction of the pipeline. Gas prices proposed by Iran initially were more than double what Pakistan and India were willing to accept. India wanted to pay a fixed amount per unit delivered to its border. However Iran wanted the cost to be linked to the fluctuating international energy prices. All three parties have been meeting frequently to come up with an agreeable formula.

Iran had initially demanded US\$7.20 per million British thermal unit (mBtu) linked with a price escalating component (10% of Brent Crude Oil) that was almost double of the \$4.25 which India offered on its border. Both Pakistan and India rejected this offer after which a consultancy firm, Gaffney, Cline and Associates (GCA) was hired to give a workable formula. The local gas production price in India and Pakistan varies from US\$3 to US\$7.<sup>40</sup> However the liberalization of power sector and investments in energy sector under NEPL bound to raise gas price considerably in future.

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39 Shamila N.Chaudhary, "Iran to India Natural Gas Pipeline", 2000, TED Case Studies

40 The Daily Dawn 11.04.2007; <http://www.dawn.com.pk>

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)<sup>41</sup> 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 \$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. Another minor but vital issue is on transit and tariff fees between India and Pakistan.<sup>42</sup>

Pakistan initially asked US\$1 per mBtu as a transit fee and US\$1.57 mBtu for transportation (and tariff) while India was not willing to pay more than US\$0.15 and US\$0.40 respectively. In recent meetings differences have been brought down. On the transit side, though India expects Pakistan to waive transit fee as a gesture of goodwill, with the argument that only a 103km extension will be required to India. Another argument is based on international transit fees which are approximately \$0.10 in the case when the transit country is not a beneficiary. Pakistan in turn offered a fee based on 10% of the gas price (which currently translates into US\$0.493) and India offered US\$0.20 per mBtu in absolute terms.<sup>43</sup> These negotiations are still ongoing and due to these issues India skipped last two negotiations, which many analysts see as Indian effort to bid time under US nuclear deal pressure.

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41 There is a ceiling and a floor fixed with it from \$30-70. If price of JCC within ceiling then the gas will be priced at 0.063 times of the JCC price, plus a fixed component of \$1.15. If JCC falls outside the range of \$30-70, the multiplier will be 0.05. The fixed components will be \$1.54 and \$2.06 respectively when the JCC is priced below \$30 per barrel and \$70 per barrel.

42 The daily Dawn 17.04.2007; <http://www.dawn.com.pk>

43 ibid

Pakistan has offered India the alternative option to buy gas at the Pakistan-India border from Pakistan and let the Pakistan and Iran deal with the pipeline<sup>44</sup>. This offer also circumvents India's two critical concerns: dealing with Iran, which is inviting pressure from the US and to some extent security issues in Balochistan, both of which are discussed below. But many Indian experts still believe that the confidence level is not high enough for India to give Pakistan such leverage.

As for the financing of the project, the earlier raised concerns are now no longer critical due to the "segmented construction" approach. The \$7.4 billion pipeline will be running 1115km within Iran (Asalouyeh to Pakistan border) and 898km within Pakistani territory before entering India and another 740km within India. A "segmented construction" approach has been agreed so that each country will build the pipeline within its own territory and will have proprietary rights. While Iran has already started construction work at Pars field, Pakistan is ready for contracting procedure.<sup>45</sup>

Despite the Iran-Libya Sanctions Act of 1996 and a pending Iran counter proliferation Act 2007 by the U.S. congress, companies have been doing business with Iran much beyond the limit of \$40 million mentioned in these Acts. A consortium was also under discussion among BHP (Australia), NIGC (Malaysia), Total (France), Shell (Netherlands), BP (UK) in addition to Irani, Pakistani and Indian national gas companies.<sup>46</sup> Recent developments have brought Russian Gazprom onto the scene. Gazprom came forward during the crucial time when analysts were raising questions about the funding of the project. Gazprom has expressed interest and last month Russian Prime Minister Mr. Fradkov visited Pakistan and signed a number of cooperation 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.<sup>47</sup>

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44 Srivastava S (2007); 'India weighs the pipeline odds'; Asia Times online 19/04/2007; accessed on 05/05/2007  
<http://www.atimes.com>

45 The daily Dawn 17.04.2007; <http://www.dawn.com.pk>

46 Shahid S; 'Iran-Pak-India gas pipeline; implications and prospects'; The News

47 The daily dawn and The Asian age ePaper; 17.04.2007



The most recent breakthrough came on May 2<sup>nd</sup> 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.<sup>48</sup> The statement came at the same day when US congress committee on international relations wrote a hard tone letter to Indian prime minister.

### ***Political acceptability***

Major hindrances coming in the way of the IPI project include security issues, especially the instability in Balochistan and the barrier politics played by the United States. However despite all issues, trilateral talks are underway, and all three countries remain confident enough to go ahead with the project. Prime Minister Shaukat Aziz has termed the pipeline as "a win-win proposition for Iran, Pakistan and India"<sup>49</sup> that could serve as a durable confidence building measure, creating strong economic business links among the three countries.

But this win-win situation could soon be in jeopardy if the situation in Balochistan does not stabilize. In fact, a few days after Iran's oil minister Bijan Namdar Zanganeh arrived in New Delhi in January 2006 to discuss the future of the pipeline, two gas pipelines were blown up in Balochistan sending tremors through both Iran and India, that this "pipeline of peace" might be anything but peaceful.

### ***Security and Balochistan Problem***

Of paramount importance to India and the project in general is whether Pakistan can guarantee security. Recognising the issues of national security and their effects on the economic landscape of the country, the present government of Pakistan seems more amiable to the resolution of the India - Kashmir - Pakistan conflict than its predecessors. It is foreseeable that when the pipeline venture becomes reality, security will play a very important role in determining the stability

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<sup>48</sup> The daily News; 03.05.2007; <http://www.jang.com.pk/thenews>

<sup>49</sup> "Iran – Pakistan – India Pipeline: The Baloch Wildcard", Energy Security, 12/01/05

amongst the countries, thus giving dissidents potential ammunition in times of national agitation. The IPI pipeline faces two security issues. Both are of great concern to India: First of all such a pipeline will give leverage to Pakistan over India and second the situation in Baluchistan.

Gas supply disruptions could, even if Pakistan pays all direct and indirect losses, cause Indian power plants and industry a great deal of trouble. Attacks on the economic interests of involved parties have been a tactic of all guerrilla movements across the world.

Though the government of Pakistan has assured India of the security of pipeline and a smooth gas supply, India has reservations over the Pakistan government's capability to deal with the Baloch issue. The Baloch issue has gone beyond an identity and autonomy struggle within the federal politics of Pakistan. The current upheaval in Balochistan, where locals are known to resent foreign ventures (especially ones in collaboration with the present Pakistani government) may translate into a major security concern. These Indian concerns become more evident with the fact that Baloch militants have been attacking Pakistan's domestic gas pipelines, electric grids and other public and business interests. Baloch militants have also been kidnapping and killing, in two separate incidents, Chinese engineers in recent years. Since spring 2003, there have been approximately 100 attacks on different public and business installations including 15 on domestic gas pipelines. The current situation is particularly unstable with Pakistani armed forces at loggerheads with local tribes, especially since the killing of Navab Bugti in the summer 2006.<sup>50</sup>

The Baloch movement goes back to the 1947 when against the expectations of the majority of the Baloch *Sardars*, Balochistan was made a part of Pakistan. The Kalat rebellion was taken on by force by Pakistan army in 1948. There have been three major insurgencies since then, 1958, 1973, and 2003.

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<sup>50</sup> Grare (Carnegie report 2006)

The unequal distribution of revenue generated from Baloch resources has led to violence, the sabotage/disruption of power production and the destruction of gas pipelines and in the past. The current movement is more or less around the same arguments. Balochistan has a population of 6.5 million and 43% of Pakistan' total area. It produces 36% of Pakistan's total natural gas production. In addition it has huge potential of underground gas and oil reserves, gold, copper, uranium, and other minerals. Strategically Gwadar port is the only deep water port in the region located on mouth of the Straits of Hormuz, the most crucial chock point of energy transport. There are many mega projects are on the way to connect China and central Asia with Gwadar port. Since 1947 Balochistan has been excluded from these developments. Most of the population is poor without access to education, health and infrastructure. Event the gas the province produces is not available to its residents.

There are currently three major groups who are fighting with the government, Ghaus Baksh Marri, Ata ullah Mengal, and the Akbar Bugti's clan, whose leader was assassinated last year. There are differences between the Baloch tribes but against the central government they ally together. Unlike during Zia' period (1977-1988), the Musharaf government has remained unsuccessful in manipulating these differences or buying out *Sardars* through heavy kickbacks. The strategy the Pakistan government has chosen this time is also different from 1973, when the government confronted Baloch insurgents with a brigade of army and the help of helicopters and fighter jets. This time the government is striking on selected targets in a tactical way. The likelihood of an independent Balochistan seems a very distant possibility since it would not benefit the region or the main parties involved. However since the government is not be able to tackle the problem, the success of the IPI project is only assured by involving Balochis in the process.

These Pakistani domestic security issues will raise India's concern about the reliability of the project. For the Indian government the chief concerns pertain to Pakistani dissidents disrupting supplies. If Pakistan truly wants India to share the burden of the project it should demonstrate to

New Delhi that it can ensure security and stability along the pipeline route.<sup>51</sup> However wide scale and explosive agitations in Balochistan have led analysts to consider security, specifically in the context of Balochistan, as a major hurdle in realizing the project. "Already, possibilities for an alternate pipeline to bring gas from Turkmenistan to India through Afghanistan and Pakistan are being considered"<sup>52</sup>. But this alternative has more security threats and no foreseeable solution vis-à-vis the IPI pipeline.

India also believes the pipeline places Islamabad at a strategic advantage where it can shut off the tap in times of crisis or conflict, which is why during a meeting with Shaukat Aziz in Delhi, the then Indian Petroleum Minister Mani Shankar Aiyar summed up the Indian position in the following words: 'We did repeat what we have said earlier about using Pakistan as transit corridor (for sourcing gas from Iran) creating mutual dependency...we need to replicate such mutual dependency in several other sectors so that we can conceptualize whatever cooperation we have in the hydrocarbon sector in the wider trade and economic relationship between the two countries'<sup>53</sup> This issue also relates to a demand from India to grant free transit for Indian commodities to Afghanistan and Central Asia where the commodity market is captured by China, Iran and Turkey.

### ***Economic cooperation and interdependence***

Regional economic cooperation is seen as one of the most important political gains from the project. Both India and Pakistan have pressing economic needs that draws them to the tri-partite gas pipeline deal. To begin with, as explained in the first section, both countries consume more natural gas than they produce. The pipeline also helps in re-establishing ties with Iran especially after major differences over the Afghanistan civil war where Pakistan supported the Taliban and Iran supported the Northern Alliance, as well as in the context of the proxy wars between Shias and Sunnis that both countries fund. For India it improves trade relations and communications

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51 "Iran – Pakistan – India Pipeline: The Baloch Wildcard", Energy Security, 12/01/05

52 Thakurta, "Iran – Pakistan – India Gas Pipeline in Trouble", Inter Press Service News Agency, 21/04/07

53 "India finds a \$40bn friend in Iran", Asia Times, 11/01/05

with Iran and solves the looming energy crisis given that crude oil and petroleum products form a large chunk of her imports.

Initially however, this was also exactly where the problem lay: both India and Pakistan viewed the project as bilateral collaborations instead of one tripartite one, in that the partnerships formed were India – Iran and Iran – Pakistan. The Iran – Pakistan –India nexus that is the catalyst required to accelerate the peace process between New Delhi and Islamabad was cautiously side-stepped by both countries. Forming a disjoint economic triangle of sorts, both countries connected only with Iran in terms of economic and geopolitical gains and not with each other.<sup>54</sup> Furthermore, economic ‘cooperation is seen by Pakistan and other countries as only strengthening India’s economic dominance by securing a regional market for India’.<sup>55</sup> However trade between India and Pakistan through the gas pipeline collaboration may lead them participate in greater regional trade, a venture essentially avoided by both countries owing to India’s hegemonic presence in the region as well as tense social and cultural ties between the two. In the words of the Punjab Finance Minister for Pakistan, Shahid Kardar, ‘We do not have the luxury of time. It has run out on us. We need to seize the moment, or we will be marginalized in the global system with increasingly difficult political, economic and social challenges confronting us’.<sup>56</sup> Post 2005, improved ties between the two countries have thawed New Delhi’s reservations about dependence on Pakistan and the project is now seen as a corner stone in the Indo-Pakistani peace negotiations.<sup>57</sup>

### ***The United States***

The question of the Iran – US dispute is central to the venture: given the hostility between Washington and Tehran, it is unlikely that America will support any venture that Pakistan or India wish to pursue with Iran. The Iran – Libya Sanctions Act of 1996 which bars any country from

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54 Chaudhary, “Iran to India Natural Gas Pipeline”, 2000

55 Ibid

56 Ibid, p. 11: quoted from Dawn 13 November 2000

57 Aiyar has been replaced by Murli Deora; Deora is famous for his pro America lobby in the Congress party, the implications of which will be discussed in the section on America.

investing over \$40 million for development of petroleum resources in Iran as well as buying oil equipment from the country will encumber the development of the IPI, even though the Indian energy industry is in desperate need of the gas resources that Iran has to offer. Thus while the US is keen on developing economic ties with India, it is adamant on isolating Iran from the international community. On the 27<sup>th</sup> 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.' <sup>58</sup>

India's stand however has been clear – that even with the negotiations pertaining to the India – US nuclear deal it will not accept to have its foreign policy influenced by another power. However many see India's reluctance to attend trilateral meetings and holding fast track negotiations as a tactic to bid time under U.S. pressure.

Pakistan, a key ally in the War on Terror and the recipient of substantial aid flows from the US faces the same problem:

'A section of the Western press has reported that US pressure is building up on Islamabad not to enter into an energy deal with Iran at this juncture. An Iran – Pakistan – India gas – pipeline project flies in the face of American efforts to isolate Iran regionally. The project, if it materializes, would also foreclose whatever prospects remain of the revival of the trans-Afghan pipeline project, which many still see as a *raison d'être* of the US intervention in Afghanistan.'<sup>59</sup>

As of 2007, the possibility of sanctions against Iran jeopardizes the future of the IPI pipeline. Actively opposed by Washington, the three regional governments continue to go through the motions of planning the project, even after India voted against Iran at the International Atomic

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<sup>58</sup> India and Iran: Crunch time ahead, The Hindu, 27.03.07

<sup>59</sup> "India finds a \$40bn friend in Iran", Asia Times, 11/01/05

Agency Committee. It has been rumoured that Aiyar was removed from his post for his ambitious plans of shifting the control over energy markets away from the US towards what has been called an Asian gas grid that would link India with Iran, Turkmenistan, Kazakhstan, China and Myanmar. However India is stuck in an unenviable catch 22 situation: seeking to feed its booming economy, India is also trying to cement a nuclear cooperation agreement that it signed with the US as well as importing gas piped across Pakistan.<sup>60</sup> Furthermore if sanctions are imposed on Iran, Iran, Pakistan and India may be forced to reschedule the project. 'Officials in Islamabad and New Delhi have admitted that they may have to re-evaluate the gas pipeline project if the UNSC votes in favour of imposing sanctions in Iran'.<sup>61</sup>

However India's apparent energy crisis which propels her to continue with the gas pipeline deal with Iran, against US approval as well as the peace process with Pakistan which was initiated in 2004 in the face of historically strained and tense ties, is indicative of the commitment that New Delhi will have to show if the project is to take off. Delhi today is seen as prioritizing energy over the Kashmir/regional tensions: 'India initially showed reluctance over the passage of gas line through Pakistan, citing security reasons and tying the project with the string of conditions that include the *Most Favoured Nation status* from Pakistan. But it finally indicated its willingness to join unconditionally after Pakistan vowed to go ahead alone'.<sup>62</sup>

The US on its side would stand to gain from a more peaceful South Asian region. However short term and limited visions of national self interest are unlikely to make way for a broader American vision of the region.

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60 Paranjay Guha Thakurta, "Iran – Pakistan – India Gas Pipeline in Trouble", Inter Press Service News Agency,

21/04/07

61 Ibid

62 "Fate of Iran – Pak – India gas pipeline project hangs in balance", People's Daily Online, 20/03/05

Tata Steel, one of India's corporate giants, had signed a deal to build a \$1.4-billion plant in Iran. Los Angeles times 06.02.2007; accessed on 12/05/2007 <http://www.latimes.com/news/nationworld/world/la-fg-indoiran6feb06,0,255650.story?coll=la-home-headlines>

## **Conclusion**

Aside from economic gain, the shared energy crisis between New Delhi and Islamabad seems to have finally sunk in and hopes of a lasting and beneficial peace process are more realistic on the horizon of the natural gas pipeline project. Instead of being an issue of India – Pakistan regional politics, the IPI issues at hand now seem to be Iran – India relations in light of the IAEA vote, US – India relations in the context of the nuclear agreement between the two countries, and America – Pakistan relations in the context of the War on Terror and the resultant aid flows to Pakistan. Now that the nuclear deal has been struck and the US pressure on Iran is mounting, the IPI pipeline politics have become more critical. How New Delhi will react to the expected more aggressive American moves against Iran is the critical question that to a large extent would define the IPI's future. Moreover, how Iran reacts to Indian actions is also crucial.

This discussion has to be seen in the context of India's new foreign policy priorities. The new world order has prompted India to understand that foreign relations cannot be conducted under a moral banner alone. Economic interests have come to precede almost any other priorities, prompting India to changed stand and promulgate that it does not interfere in the internal matters of other countries. This includes Iran and Myanmar. The current government, though Congress led has not reverted to a moralistic foreign policy and seems to continue in the path set by the NDA. Relations between the India and Pakistan are set to improve even further if energy cooperation takes off and the pipeline between the two countries gets built.

The paper has argued that the geopolitics of energy have started to alter relations between India and her neighbours. In reassessing India's foreign policy priorities, New Delhi has started to put the search for new sources of energy at the top of the list in order to sustain economic growth and in the longer term play the global role Nehru had already envisioned over 50 years ago. These new policy priorities have brought India closer to her neighbours and altered the way in which New Delhi conducts regional foreign policy. However at this stage the discussion needs to be



seen in the wider context of relations across Asia. Beyond the scope of this paper, is the question of if the geopolitics of energy will bring Asia closer together through energy cooperation or if instead, it will end up in greater antagonism between the two great powers India and China as the race for energy resources intensifies. The Southeast Asian region will certainly be caught in the middle – for better or for worse.