REVIVAL OF IRAN-PAKISTAN GAS PIPELINE: HOW FAR WILL IT GO?

by
Sajid Aziz

Pakistan's decision to start constructing its portion of the Iran-Pakistan (IP) pipeline signals a revival of the long-stalled gas project. The decision, approved by the Cabinet Committee on Energy on February 23, entails the development of an 80-kilometer segment of the pipeline, starting from the port city of Gwadar and stretching to Iran's border. Interestingly, this development follows a period of heightened tensions between Iran and Pakistan, with both sides exchanging tit-for-tat military strikes against each other. While the completion of the IP gas project holds the promise of substantial economic and political gains for Pakistan, it must first overcome geopolitical constraints, security challenges, and financial hurdles.

Originally envisaged as a tripartite peace pipeline involving Iran, Pakistan, and India, the project was reduced to a bilateral agreement between Iran and Pakistan in 2008 when India withdrew citing U.S. sanctions and security threats. Both states signed a 25-year contract in 2009 to export gas from Iran through an approximately 1500-mile gas pipeline, to be built jointly by both countries on their respective sides, originating from the South Fars gas field in Iran and entering Pakistan via Gwadar and going all the way to Sindh province.

While Iran completed its section of the gas pipeline, Pakistan failed to develop its part due to U.S. sanctions and financial constraints. This has led to strained mutual relations and overt threats, with Iran asking Pakistan to either fulfill its part of the deal by constructing the pipeline or face a penalty to the tune of $18 billion. Tehran has also threatened to take Pakistan to the Paris-based Arbitration Court if it fails to meet its commitments under the bilateral agreement.

Policy Rationale behind the Decision

The decision to revive the stagnant IP gas project is primarily to avert a whopping $18 billion penalty, an important consideration given Pakistan's dire economic situation with dwindling reserves, a recurring crisis of fiscal deficit, and high inflation. A few years back, Pakistan barely avoided incurring a significant financial burden of over $6 billion penalty owed to Barrick Gold, a multi-national corporation based in Canada, through renegotiation of an agreement.

It is important to note the restart of the long-delayed pipeline project happened after the diplomatic rapprochement between Iran and Saudi Arabia, facilitated by China's mediation efforts. The geopolitical rivalry between Iran and the Gulf states has often impacted Pakistan's domestic political landscape, social dynamics, and foreign policy outlook.

Furthermore, the revival of the project underscores Pakistan's need to tackle its chronic energy crisis and diversify its energy imports, including exploring the option of importing cheap oil from Russia and accelerating work on the U.S.-supported Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas project. Pakistan heavily relies on imports to meet its domestic energy needs. This situation will only exacerbate as a growing population will increase the demand for more energy imports.

According to the World Bank, Pakistan's energy demand will rise by 70 percent by 2030. The IP project, expected to deliver 750 million cubic feet of gas daily, offers a significant opportunity to mitigate Pakistan's energy crisis and enhance energy security.

Challenges and Hurdles

The revival of the IP gas project faces significant challenges. One of the notable difficulties is the security threat emanating from separatist groups operating in the conflict-prone Balochistan province, especially the Makran region. Recent years have seen a resurgence of violence in Balochistan, posing a threat to infrastructure projects such as the IP pipeline.

According to the 2019 annual report of CRSS, a Pakistan-based research think tank, Balochistan was the worst-hit province, accounting for more than 40 per cent of all casualities. With 309 causalities, Balochistan emerged as the second worst-hit province in 2020. In the first three quarters of 2023, Balochistan along with Khyber Pakhtunkhwa (KPK) accounted for more than 90 percent of militant attacks. One of the important factors of separatist insurgency in Balochistan has been the steady use of suicide bombing, especially targeting Chinese nationals and engineers to undermine foreign investment in the China-Pakistan Economic Corridor (CPEC) and the Saindak gold and copper mining project.

But the more fundamental question is how can Pakistan circumvent the challenge of averting U.S. sanctions if it moves forward with the project? Pakistan had earlier invoked the U.S. sanctions for its reluctance and inability to fulfill its part of the deal.

As things stand, U.S. sanctions are still in place, so what has changed? Will Pakistan be able to garner an exemption from sanctions, not dissimilar to the waiver India and U.S. allies enjoyed during the time they imported energy resources from Iran? If Pakistan moves forward with the project without a waiver, how will it cope with potential U.S. sanctions, especially considering its economic negotiations with the International Monetary Fund, where U.S. influence is substantial?

The imposition of U.S. sanctions against Iran has led to a booming surge in informal trade of energy products along the Iran-Pakistan borders. Both states have indirectly facilitated this trade for their national interests, with Pakistan seeking to fulfill its growing energy demands, and Iran aiming to secure a market amidst the sanctions. This illicit trade primarily involves blue pick-up trucks, locally referred to as Zamyad, which traverse the border regions in thousands. These trucks transport petroleum products in barrels, which are then distributed to urban centers in Pakistan, including Karachi and Rawalpindi. The lucrativeness of this border trade can be gauged by the fact that even during the recent military tensions when both states exchanged tit-for-tat military strikes, the Iran-Pakistan border remained open and 'trade' continued.

Even if Pakistan manages to overcome these obstacles, it will face the challenge of undertaking substantial measures to facilitate smooth financial transactions. Currently, there does not exist an adequate banking channel to do so. Addressing this issue requires coordinated efforts from both nations to develop robust banking mechanisms that can effectively facilitate cross-border trade and financial transactions

While the IP project offers economic and energy benefits, addressing security threats and navigating geopolitical complexities, particularly concerning U.S. sanctions, will be crucial for its successful implementation. The dilemma for policymakers in Pakistan is to chart a delicate policy path that averts penalties for inaction over the IP gas project as well as avoids inviting sanctions for moving forward with the project.

Sajid Aziz is an independent researcher with a focus on security and foreign policy issues. He has previously worked as a consultant at the Strategic Policy Planning Cell (SPPC), an Islamabad-based think tank.