



04

SAIRA H. BASIT

The Iran-Pakistan- India Pipeline Project

Fuelling cooperation?

OSLO FILES

ON DEFENCE AND SECURITY—04/2008

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SUMMARY

The planned Iran-Pakistan-India natural-gas pipeline (IPI Pipeline) has been in the Asian spotlight for many years and its full realisation would be politically ground-breaking. Its energy-supply route is planned to cross the political fault line between the two rivals Pakistan and India, who would thus be bound to cooperate with one another. In fact, planning the Pipeline is the first time in history that the two countries have ever even negotiated on a trilateral project. Additionally, intricate Iran-Pakistan relations may well improve.

Although negotiations over the IPI Pipeline started more than a decade ago, the project has still not been realised, despite it apparently being a win-win situation for all the parties involved. A wide range of serious challenges have emerged since the birth of the Pipeline idea and this article looks into the economic, political, regional and global obstacles the project faces, and explores alternative, and perhaps more likely, versions of the original trilateral project.

But even a less ambitious outcome would have clear merits: regardless of whether the Pipeline materialises in the form in which it was initially proposed, negotiations over it have already produced spillover effects in key sectors, such as diplomacy and economics. This is the main argument of this article, as it examines both current and potential spillover effects in the future from the Pipeline project.



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INTRODUCTION¹

We have a great deal of respect and love for the people of India and Pakistan. We look upon them as our own people. We are very interested in this [Iran-Pakistan-India] pipeline being constructed. [...] We want this pipeline to be the pipeline of brotherhood and peace.²

Mahmoud Ahmadinejad, President of Iran

To strengthen our efforts for peace we seek to actively promote projects that are vital to the economic development of the region. The Iran-India-Pakistan Gas Pipeline is such a project that is of utmost importance to the growing energy needs of both Pakistan and India.³

Khurshid M. Kasuri, Pakistani foreign minister

If this [the Iran-Pakistan-India natural gas pipeline project] is a project which will enhance India's energy security. If it is a project which is going to be economical from India's point of view, certainly, it would [be] in our national interest and we would go ahead with it. [sic]⁴

Shyam Saran, former Indian foreign secretary

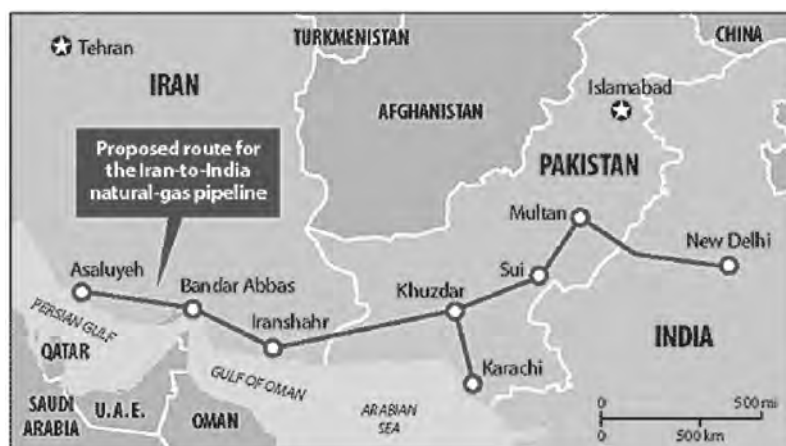
The planned *Iran-Pakistan-India natural gas pipeline* (IPI Pipeline) has been in the Asian spotlight for many years. Since 2005, the governments in Tehran, Islamabad, and New Delhi have held a number of bilateral and trilateral negotiations which, contrary to what many expected, have been successful in several ways.

A full realisation of the IPI Pipeline would be ground-breaking politically. First, its energy supply route is planned to cross the political fault line between the two rivals, Pakistan and India. In fact, its planning is the first time in history that these two countries have ever embarked on negotiating a trilateral project.⁵

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- 1 A special thanks to Sven Holtmark, Øystein Tunsjø, Eirik L. Sagen, Ole Kristian Holthe, Annika Evensen, Kjetil Selvik, Stig Stenslie and the Norwegian Institute for Defence Studies for supporting me throughout this project.
 - 2 Interview with Mahmoud Ahmadinejad, President of Iran. Siddharth Varadarajan and John Cherian, "We are still interested in dialogue based on justness and fairness", *Hindu*, 10 August 2006 [online 18 June 2008].
 - 3 Quote by Khurshid M. Kasuri, Pakistani foreign minister. "Press Trust of India – Siachen progress needed for peace process: Pak", *International Institute for Strategic Studies*, 31 January 2006 [online 18 June 2008].
 - 4 Quote by Shyam Saran, former Indian foreign secretary. "IAEA vote not to affect pipeline plans with Iran", *Press Trust of India*, 26 September 2005, (Indian Express Newspaper [online 18 June 2008]).
 - 5 Interview in Tehran, 10 September 2006.

Second, relations between Iran and Pakistan have not exactly been smooth at all times. For these reasons, the pipeline has been nicknamed “the Peace Pipeline”.

I would argue that even a less ambitious outcome would have clear merits: regardless of whether the IPI Pipeline does materialise as initially proposed, the negotiations surrounding it have already produced spillover effects in key sectors, both diplomatic and economic ones. Multinational pipeline projects have the potential to create new economic and political patterns of cooperation between energy-producing states, energy transit states and energy-consuming states. This might lead to increased understanding, trust and interdependence, which in turn could strengthen security cooperation between nations. In this particular case, the IPI Pipeline might strengthen the political bonds between Iran, Pakistan and India, and thus ultimately reduce the risk of conflict.



Map 1: IPI Pipeline Route (IEmap/B.K. Sharma)

This study explores alternative versions of the original trilateral project, which, in spite of the IPI Pipeline apparently being a win-win situation for all parties involved, has faced serious challenges; although negotiations started more than a decade ago, the pipeline has still not been realised. Soon after the project idea was proposed, it was put on ice for many years due to tensions between India and Pakistan, and negotiations did not resume before 2004–2005. In the last few years countries, precisely such as those of India and Pakistan, in need of energy to maintain rapid economic growth have made energy security a top priority, and this is one factor that has resuscitated the project. In addition, Iran has been facing considerable political and economic pressure from the international community due to its nuclear programme. As the holder of 16 per cent of the world’s proven natural-gas reserves, it can see its chance to earn fast cash and tighten its friendships with eastern countries through the IPI project.

In the first part of this case study, which outlines the background, I shall briefly look at each of the bilateral relations in the Iran-Pakistan-India triangle. Thereafter, I place the IPI Pipeline in a broader context and look at how the idea of the pipeline emerged and created the potential for multilateral energy cooperation. In the second part, I move on to identify different types of obstacles to the pipeline: economic and political ones, and the additional challenges of Baluch insurgency and US opposition. In the third part, I name three alternative scenarios to the IPI Pipeline and assess the probability of each of them. Before drawing a conclusion in part four, I explore how energy security can lead to new patterns of cooperation, which in turn might spill over to other sectors in the form of bilateral and trilateral cooperation, even between former foes.

I have chosen to make all people I have interviewed during a stay in Iran anonymous. In my view, their opinions are very credible, as they come from high-ranking Indian, Iranian and Pakistani officials and consultants from recognised oil and gas agencies.

BACKGROUND

The plan is to take the IPI Pipeline through three countries which have three very different types of governments: the theocracy of Iran, the military dictatorship of Pakistan and the democracy of India. Although bilateral relations between these countries vary, there has been a shared tendency in recent years for shifting tempers; to different extents, all three sets of relations have seen both good and bad days.

Troubled Relations

Of these countries' relations with each other, the *Indo-Pakistani* has historically been the most conflict-ridden. Even though India and Pakistan share the same origin, history, culture and language, much has happened since their religiously initiated partition in 1947 when the British Raj left the Indian subcontinent. There are four main causes for their troublesome relationship today: the prime factor of conflict between the arch rivals is the disputed areas of Jammu and Kashmir, which led to war between the two countries in 1947 and 1965, and which was much to blame for the escalation of the Kargil conflict in 1999. The second point of friction is militant Islamist groups in Pakistan and nationalistic militant Hindu groups in India; for instance, militant Islamists were responsible for the attack on the Indian Parliament in 2001, and Hindu militants attacked and killed hundreds of Muslims in the Indian Gujarat in 2002. Third, in the last few years, Islamabad and New Delhi have been engaged in a missile and nuclear-arms race. Neither of them has signed the Non-Proliferation Treaty, and in 1998 both countries carried out underground nuclear-bomb tests. The final factor is dissatisfaction with their respective alliances; India considers China its main competitor in Asia, whereas China and Pakistan share very warm relations and cooperate within several sectors, including the military one, which has both worried and irritated New Delhi. There have been several attempts at rapprochement between India and Pakistan, though mostly in vain; such attempts often ended in more unrest. However, in the last 4–5 years Indo-Pakistani relations do seem to have warmed up.

In 2003, *Iran and India* launched a strategic partnership and signed the joint “New Delhi Declaration” in which it is stated that they are

Conscious of the vast potential in the political, economic, transit, transport, energy, industries, science and technology and agricultural fields and of the benefits of cooperative endeavour, [d]etermined to build a strong, modern, contemporary and cooperative relationship that draws upon their [Iran's and India's]

historical and age-old cultural ties, the advantage of geographical proximity, and that responds to the needs of an inter-dependent world of the 21st Century, [a]ware that their strengthened bilateral relations also contribute to regional cooperation, peace, prosperity and stability [...].⁶

The two countries have mostly had friendly relations. Although at a low level, Iran and India have cooperated in the defence and military sectors over the last two decades. Other important areas of cooperation include the making of a joint Central Asian strategy and securing the sea lines of communication in the Persian Gulf; India also has several infrastructural projects in Iran, including the development of the Chahbahar port near the border of Pakistan, and the two countries have signed large contracts on energy cooperation.⁷ Through Chahbahar and Iran, India can see an opportunity for it to get land access to Afghanistan and Central Asia, something Pakistan has not offered. Also, the port of Chahbahar has a strategic position for monitoring oil- and gas-shipping traffic through the Gulf of Oman, not far from the competing Chinese-supported Port Gwadar in Pakistan. It is only in recent years that the Indo-Iranian relationship has been facing serious difficulties: the civil nuclear cooperation agreement between the US and India in 2005, and the signing of the deal in 2006, complicated relations. Probably due to pressure from the US, India voted against Iran on an IAEA resolution in 2005 that found Iran to be in non-compliance with its international obligations, leaving the Islamic Republic feeling betrayed. The following year, India again voted against Iran on a new IAEA resolution which recommended Iran's nuclear programme be referred to the UN Security Council. In its efforts to isolate Iran, the US has been pushing India to abandon all thoughts of cooperation with Iran, including the energy sector. India's strategic partnership with the US has also led to enhanced relations between India and Israel, another delicate issue in Iran.

As for *Iranian-Pakistani* relations, Tehran was the first to recognise the newly independent state of Pakistan in 1947, and Pakistan was the first country to recognise the Islamic Republic in 1979. The two Muslim states have mostly enjoyed a close and peaceful relationship. Despite Iran having a Shiite Muslim majority and Pakistan a Sunni one, Islamic identity has been an important factor in defining the relations between them. One of the two countries' shared incentives for cooperation has been to stabilise the Pakistani and Iranian provinces of Baluchistan. In the late 1970s, Pakistan, assisted by the Iranian army, ended

6 "The Republic of India and the Islamic Republic of Iran 'The New Delhi Declaration'", *Indian Ministry of External Affairs*, 25 January 2003 [online 18 June 2008].

7 Pramit Mitra and Vibhuti Haté, "India-Iran Relations: Changing the Tone?", *South Asia Monitor*, no. 92 (8 March 2006), (Center for Strategic and International Studies [online 18 June 2008]).

a powerful separatist insurgency in the Baluchi areas. In the 1990s, however, two factors altered Iranian-Pakistani relations: first, there was a rise in anti-Shiite groups in Pakistan, which were also blamed for the assassination of Iran's Council General in Lahore in 1990; second, the Soviet military withdrawal from Afghanistan brought forth differences between Iran and Pakistan in their views on Afghanistan. Iran wished to increase its influence in the country and groom especially the interests of the Hazara Shiites, whereas Pakistan, along with Saudi Arabia and the US, supported the Pashtun-dominated Taliban. With the installation of the Taliban government in Afghanistan, Iranian-Pakistani relations deteriorated further. The Taliban not only massacred thousands of Hazaras, but also murdered Iranian diplomats. In addition to Afghanistan, the two countries have competed to increase their influence in the newly independent Central Asian countries. After 9/11 and the fall of Taliban, relations between Iran and Pakistan have improved somewhat, though some tensions remain as Pakistan has formed a strategic partnership with the US, and Indo-Iranian relations have been improving.

Fuelling Growth

The IPI Pipeline must be analysed within the broader context of Asia's current economic development. The economies of Asian countries such as India and Pakistan are growing rapidly, but this will be unsustainable without enough energy, of which both countries will face a shortage in the near future. The energy consumption of India and Pakistan is expected to double within 2020.⁸ Today, India is the world's sixth largest energy consumer, and its energy consumption is expected to increase from 12.7 quadrillion Btu in 2000 to 27.1 Btu in 2025.⁹ After China, this is the largest expected increase in energy use.¹⁰ In spite of India having found new reserves of natural gas in recent years, its actual increase in domestic gas supply will probably be much less than demand, and it will have to import more and more energy. Hence, energy security is one of the top priorities on the Indian and Pakistani political agendas.

South Asian leaders have shown great interest in signing contracts with Middle Eastern countries that are rich in energy resources. Iran is the first runner-up in the world in terms of both oil and gas resources. Accordingly, the country is a very attractive cooperation partner in the field of energy and, in-

8 Øystein Noreng, "The Rise of Asia and the Restructuring of International Oil Trading: Neo-mercantilism versus Globalization?" *The Journal of Energy and Development*, vol. 2, no. 30 (2005), p. 8.

9 Multiply 1 trillion British thermal units (Btu) by 0.028 to get billion cubic metres (bcm).

10 Mitra and Haté, "India-Iran Relations: Changing the Tone?"

deed, over the last few years, Iran, in its search for new strategic partners, has developed an energy-exporting policy that “looks towards the East”. India, for instance, put its stake in long-term cooperation with Iran when the Indian Oil Corporation in June 2005 signed an LNG deal with the National Iranian Gas Exporting Company, which will supply India with gas for 25 years starting in 2009–2010.¹¹ In Pakistan’s case, the largest energy contract with Iran will be the prospective IPI Pipeline. The Russian gas company Gazprom has also shown interest in supporting the project with both financial resources and technology.¹² Due to sky-high energy prices, Russian companies like Gazprom have accumulated large revenues and one of the reasons why companies like Gazprom wish to invest their surplus outside of Russia in countries with big oil and gas reserves is to increase their income. Russian efforts to get involved in countries such as Algeria and Iran can also help Russia pay close attention to the countries’ energy policies and thereby avoid their competition.¹³

China has also shown an interest in the pipeline. The former Chinese ambassador to India, Sun Yuxi, stated in April 2005:

As far as the extension of the Iran-India gas pipeline to China is concerned, Beijing does not have any political problem with it, finding it a very good idea.¹⁴

An extension of the pipeline from India to China is, however, neither likely nor viable to this day, though China might get hold of the gas through other means, which will be dealt with later in this article.

According to a well-informed Iranian source, consortiums of consulting engineers and individuals have been studying the pipeline project for Pakistan and India separately. In addition, according to the source, an Islamic bank and/or other countries will contribute to the budget for the Pakistani part of the IPI Pipeline.¹⁵ Iran, Pakistan and India all seem to be interested in Russian involvement in the project.¹⁶ In 2007, an official from the World Bank said that the bank was ready to be a stakeholder in the natural gas project.¹⁷

11 Ibid.

12 Pepe Escobar, “The Roving Eye: Russia and Iran Lead the New Energy Game”, *Asia Times Online*, 14 July 2006 [18 June 2008].

13 Interview in Oslo, November 2006.

14 Quote by Sun Yuxi, Chinese Ambassador to India. “Iran-India-China Gas Pipeline Idea”, *ArabicNews*, 29 April 2005 [online 18 June 2008].

15 Interview in Tehran, November 2006.

16 “India Welcomes Russian Interest in IPI Pipeline”, *Kayhan International*, 11 November 2006.

17 “Editorial: How real is the Iranian pipeline?”, *Daily Times*, 3 March 2007, (WorldCALL Internet Solutions [online 18 June 2008]).

Pipeline Dreams

The idea of the pipeline grew out of several plans to transport natural gas from the Arabian Peninsula to the Asian market in the late 1980s. One idea was to transport gas from Qatar through Iran to Pakistan, through the so-called Gulf South Asia Pipeline (GUSA), and an Memorandum of Understanding was signed between Pakistan and Qatar in 1991.¹⁸ It has always been challenging for Qatar, one of the world's biggest gas producers, to transport its gas abroad. It has two major ways of exporting gas, either by tank ship or pipeline. The latter solution was preferred for many years due to the high expense of and potential risks involved in tank-ship transport. In recent years, the situation has become less clear. Notably, whereas piracy attacks on tank-ship transport have decreased in recent years, the risk of terrorist activities against such transportation has increased.¹⁹ At the same time, shipping has become less costly. One alternative to seaborne gas transportation from Qatar to the Asian market would be to build a pipeline under the Gulf to Iran and eastwards from that point; the Gulf is only 200–300 metres deep, ideal for building pipelines. Another possible route is a pipeline from Qatar through the United Arab Emirates (UAE) to Oman, and on from the Sultanate under the Arabian Ocean to Pakistan.

Two factors, however, have made the construction of such a pipeline difficult and put the project on hold. First, Saudi Arabia owns a little piece of land between Qatar and the UAE, and this apparently minor detail complicates the situation: the relationship between Saudi Arabia and Qatar has been tense since the 1990s, when certain border disputes arose between Saudi Arabia's al-Saud dynasty and Qatar's al-Thani family. It seems safe to conclude that no pipeline through Saudi Arabia will be built until the two countries have come to terms. Second, the ocean areas outside the Strait of Hormuz reach depths of up to 1800 metres: pressure at such depths would make building a pipeline difficult, even with cutting-edge technology.²⁰ The Pakistanis were also interested in building a pipeline from Oman to Pakistan through Iran, but the project was found to be neither financially nor technically feasible.²¹

Iran first introduced the idea of prolonging the pipeline from Pakistan to India to the Pakistani government under former Prime Minister Benazir Bhutto and later Nawaz Sharif.²² The Pakistani Inter-Services Intelligence responded

18 "International Gas Pipeline Projects", *Ministry of Petroleum & Natural Resources*, Government of Pakistan, 2006 [online October 2006].

19 Interview with professor working on maritime security, Singapore, 23 April 2008; energy and market consultant in Oslo, 27 May 2008.

20 Interview with energy consultant, Tehran, 4 September 2006.

21 Ibid.

22 B. Raman, "Indo-Pak Economic Ties: Ground Realities", *South Asia Analysis Group*, no. 1173 (2004) [online 18 June 2008]; Stephen Williams, "Decision Time Beckons", *Middle East* (July 2006), pp. 44–45.

to Iran's suggestion by advising Bhutto and Sharif not to extend the pipeline to India and, at first, both rejected the extension.²³ But later, under the Sharif government, an IPI Pipeline extension to India was considered. In addition, ideas of prolonging the pipeline all the way to China were also proposed, which may reflect the historically close relations between Pakistan and China.

Nevertheless, in the middle of the 1990s, more factors prevented the realisation of the project. When Sharif lost power in Pakistan in 1993 and Qatar's Sheikh Khalifa lost the throne to his son Hamad in 1995, two central actors had been lost and the project was put on hold. However, Iran's vast gas reserves still allowed for the possibility of transporting gas from Iran to Pakistan and India. A preliminary deal on building a pipeline from Iran to Pakistan was signed in 1995. However, at the end of the 1990s, the relationship between Pakistan and India reached freezing point, making the prospect of an IPI Pipeline utterly implausible. In 1998, both countries carried out rounds of nuclear bomb tests and in 1999, the Kargil conflict broke out. An alternative for India that was discussed was to build a pipeline from Iran to India going under the Arabic Ocean to bypass Pakistan. However, the lack of adequate technology would not allow such a pipeline to be realised.²⁴ Tensions between India and Pakistan continued and not before 2003–2004 did they managed to initiate serious peace talks.

Negotiations have been revived and all three countries declared their intentions to realise the IPI Pipeline project in 2005. Bilateral meetings between Iran and Pakistan and between Iran and India were held regularly in 2005, and during the six first months of the year, the first actual progress in the commercial, technological and legal aspects of the pipeline was made.²⁵

The plan is to transport about 110–130 million standard cubic metres per day (mmscmd) through the IPI Pipeline. Of the total, roughly 25 per cent is planned for Iran's domestic use, about 25 per cent for Pakistan, while India gets the remaining roughly 50 per cent.²⁶ It is estimated that Pakistan will receive \$500–600 million in transition fees per annum from India.²⁷ The length of the IPI Pipeline is planned to reach 2,600 kilometres, and the project has been estimated to cost \$7–8 billion.²⁸ It has been proposed that the pipeline take the specific route of Assaluyeh-Khuzdar-Multan-New Delhi, and a parallel pipeline

23 Raman, "Indo-Pak Economic Ties..."

24 Stephen Blank, "Afghanistan's Newest Victimization", *Asia Times Online*, 13 May 2003 [online 18 June 2008]; Shamila N. Chaudhary, "Iran to India Natural Gas Pipeline: Implications for Conflict Resolution & Regionalism in India, Iran, and Pakistan", *TED Case Studies*, vol. 11, no. 1 (2001) [online 18 June 2008], p. 1.

25 David Temple, "The Iran-Pakistan-India Pipeline: The Intersection of Energy and Politics", *IPCS Research Papers*, no. 8 (2007) [online 18 June 2008], p. 7.

26 Williams, "Decision Time Beckons".

27 Escobar, "The Roving Eye..."

28 "Experts to Set Pipeline Gas Price", *BBC*, 4 August 2006 [online 18 June 2008].

could be built along it in case demand rises.²⁹ Pakistan has already requested more gas.³⁰

Iran, Pakistan, and India have all described the prospective realisation of the IPI Pipeline as a win-win situation for them: Iran can sell its gas and obtain large amounts of revenue, and strengthen political and economic bonds eastwards; Pakistan will get income in the form of transition fees, and more energy; and India will get much needed energy to help maintain growth. Describing the importance of the pipeline to India, David Temple wrote the following in his report for the Institute of Peace and Conflict Studies in New Delhi in 2007:

[S]ince gas imports will determine the rate of India's economic growth, negotiators should push hard to overcome obstacles to the IPI, which would provide the cheapest gas import scenario for India. [...] although the IPI pipeline is not an absolute necessity in meeting India's long-term energy security, it is certainly a desirable option.³¹

The IPI Pipeline is of similar importance for Pakistan:

Not only would the pipeline curb Pakistan's demand-supply gap, but it would provide Pakistan with a much needed form of revenue. Estimates show that the IPI could deliver as much as \$14 billion in income over 30 years [...].³²

A materialised IPI Pipeline would soothe Pakistan's and India's immense needs for energy to maintain economic growth, and would bring Iran large revenues and new strategic partners. If this energy cooperation deal goes through, Pakistan and India will have a unique opportunity to enhance their relations and speed up the on-going India-Pakistan peace process. Finally, yet importantly, gas causes much less damage to the environment than resources like oil and coal, and the IPI Pipeline could accordingly have a positive impact on the environment in the region. In sum, an eventual realisation of this pipeline could lead to better economic and environmental conditions in the region, as well as boost cooperation.

29 Williams, "Decision Time Beckons".

30 Ibid.

31 Temple, "The Iran-Pakistan-India Pipeline...", p. 30.

32 Ibid, p. 32.

OBSTACLES

As shown above, the IPI Pipeline appears to be a prospective win-win project for all three parties involved, yet it has still not seen the light of day, due to different kinds of obstacles: first, there are *economic* hurdles, including difficulties in setting the price of the pipeline gas, the significant increase in the price of steel and fluctuations in the price and cost of LNG, and problems related to the parties' propensity to make sure that their cooperation partner(s) do not gain more than themselves in a cooperation project. Second, there are *political* obstacles, including the challenge of the internal dispute in Iran about whether the country should export gas. Internal political resistance is also an issue of concern in India and Pakistan, partly fuelled by the strained relationship between the two countries. Two additional obstacles are the *regional* challenge of Baluchi insurgency, and the *global* challenge stemming from the US strategy of maintaining its hegemony in Asia.

Economic Obstacles

Iran, Pakistan and India have found it difficult to agree on the price of the gas to be pumped through the IPI Pipeline. In August 2006, India offered \$4.25 per million British thermal units (mBtu). However, at the same time, Iran said that the price should be set by "global standards" at \$7.20 per mBtu.³³ In mid-September 2006, the Iranians raised their gas price to \$8.25 and Pakistan and India offered \$4.50.³⁴ Since Indian natural gas rates have traditionally been lower than international ones, the country is accustomed to buying its gas in the low price range.³⁵ However, Indian costumers' willingness and ability to pay international rates is apparently increasing.³⁶ It has been claimed that Iran wants a higher gas price from India because India voted against Iran at the IAEA meetings.³⁷ Iran has also stated that the country does not want to sell underpriced gas to India and Pakistan. An Iran-based consulting group suggested that Iran suspected India and Pakistan of trying to exploit Iran's critical situation and of

33 "Iran Economic Digest", *Iran Consulting Group*, 10 August 2006.

34 Interview in Tehran, 18 September 2006.

35 In 2005, the prices of natural gas in India ranged between \$3.30 and \$4.85; Gaurav Raghuvanshi, "Shell LNG terminal loses only costumer", *Hindu Business Line*, 4 January 2006 [online 18 June 2008].

36 See for instance "International Energy Outlook 2007", Chapter 4 – Natural Gas, *Energy Information Administration*, (US Dept. of Energy [online 19 June 2008]).

37 "Farsi Media", *Media Digest, Foreign & Commonwealth Office*, 31 August 2006.

saying that no other country would buy Iran's gas as long as the country was facing sanctions.³⁸

Pakistan raised its domestic gas price every three months in 2005–2006, thereby doubling the gas price in one year, apparently making it considerably higher than India's domestic gas price.³⁹ The reason for this increase was most probably the country's fast-approaching gas shortage; Pakistan's gas fields are expected to dry up by 2010. According to a Pakistani official, the higher domestic Pakistani gas price was closer to the gas price requested by Iran.⁴⁰ However, an Indian official said that Pakistan had reached the level of India's gas prices in September 2006, a fact that emphasises the insecurity and confusion surrounding the two countries' views on the gas pricing issue.⁴¹

In 2006, Iran, Pakistan and India agreed to use an independent council to set the price of the gas; the consulting company Gaffney, Cline & Associates was appointed.⁴² In August 2006, Hadi Nejad Hosseini, Iran's Deputy Petroleum Minister for International Affairs at that time, said that the appointed council would use Japan's market gas price as a baseline to calculate the Iranian gas price.⁴³ According to the Iranian Ministry of Petroleum, much depended on what price the consulting company would recommend. If the price calculated were closer to the suggested Indian and Pakistani price offer, the Iranian government would have to lower its price; if it was closer to the Iranian price suggestion, India and Pakistan would have to raise their offer.⁴⁴ New Delhi feared that the price would be 60 per cent higher than what was realistic for India.⁴⁵

At the beginning of September 2006, the pricing mechanism had still not been finalised,⁴⁶ but a new issue came to light: as mentioned above, the Indian Oil Corporation and the National Iranian Gas Exporting Company signed a long-term liquefied natural gas deal in June 2005, which would supply India with gas for 25 years starting in 2009–2010.⁴⁷ However, Iran raised the gas price for India after the deal had been signed. India seemed hesitant to implement the deal because such an unexpected price increase was not a part of its contracting

38 Interview in Tehran, 4 September 2006.

39 Interview in Tehran, 10 September 2006.

40 Ibid.

41 Interview in Tehran, 18 September 2006.

42 Ibid.; "Deadline Set For Indo-Pak Gas Venture", *Iran Daily*, 10 September 2006 [online 19 June 2008]; Interview with energy consultant, Tehran, 1 October 2006.

43 "Farsi Media", *Media Digest, Foreign & Commonwealth Office*, 31 August 2006.

44 Interview with Iranian official, Tehran, 27 September 2006.

45 "Experts to Set Pipeline Gas Price", *BBC*.

46 "Iran Economic Digest", *Iran Consulting Group*, 5 September 2006.

47 Siddharth Srivastava, "Price Imbroglio Stymies Iran Pipeline", *Asia Times Online*, 27 July 2006 [online 19 June 2008].

policies.⁴⁸ In mid-September 2006, the Indian Oil Minister said that delays in the LNG contract would “impede the execution of the Peace Pipeline”.⁴⁹

In July 2007, Iran, Pakistan and India finally agreed on a formula for the natural gas price which was based on the price of natural gas in Japan, set at \$4.93 per mBtu.⁵⁰ However, the three parties had still not agreed on the review cycle of the gas price: Iran wanted a three-year cycle, while India favoured a review cycle of seven years.⁵¹ Apparently at the end of 2007, Pakistan and Iran agreed on the contents of the bilateral part of the IPI contract, but it was yet to be signed.⁵² The gas price issue between Iran and India seems somewhat more uncertain.

Up to 2004, steel prices were relatively stable, but during the summer of 2006, there was a dramatic increase of 60 per cent, thereby increasing the cost of the pipe per linear foot from \$77.90 in 2000 to \$200 in 2006. The cause of the increase was a growing, worldwide demand for steel, especially in China.⁵³ Initially, the pipeline had had an estimated price of \$4 billion, but the current price is more than \$3.5 billion higher, largely because of the increase in the price of steel. In 2007–2008 the price of steel increased even more. Naturally, this rise in costs is another hurdle to the 2,600-kilometre pipeline project.

However, the cost of LNG projects has declined substantially since the 1990s and on. The Energy Information Administration (EIA) elaborated on LNG trends in a 2003 report:

According to the Gas Technology Institute (GTI), liquefaction costs have decreased 35 to 50 percent over the past ten years, with plant capital costs decreasing from more than US\$500 per ton of annual liquefaction capacity to less than US\$200 for trains at existing plants (in nominal dollars). Building costs for LNG tankers have decreased from about US\$280 million (nominal) in the mid-1980s to about US\$155 million in late 2003. Regasification terminal costs have also fallen, though costs tend to be site-specific and can range from US\$100 million to more than US\$2 billion.⁵⁴

48 Interview in Tehran, 18 September 2006.

49 “Iran Economic Digest”, *Iran Consulting Group*, 16 September 2006.

50 “Iran, Pakistan, India agree gas price for transnational pipeline”, *RIA Novosti*, 16 July 2007 [online 2008].

51 Abbas Maleki, “Iran-Pakistan-India Pipeline: Is it a Peace Pipeline?” *The Audit of Conventional Wisdom*, MIT Center for International Studies, September 2007.

52 Gisoo Misha Ahmadi, “Iran, Pakistan finalize IPI deal”, *Press TV*, 29 September 2007 [online 19 June 2008].

53 Alan C. Hutson and Russel L. Gibson, “Challenges for Pipeline Bidding in a Seller’s Market”, *Freese and Nichols*, 2006, (Texas AWWA [online 19 June 2008]).

54 “The Global Liquefied Natural Gas Market: Status and Outlook”, *Energy Information Administration*, December 2003 (US Dept. of Energy [online 19 June 2008]).

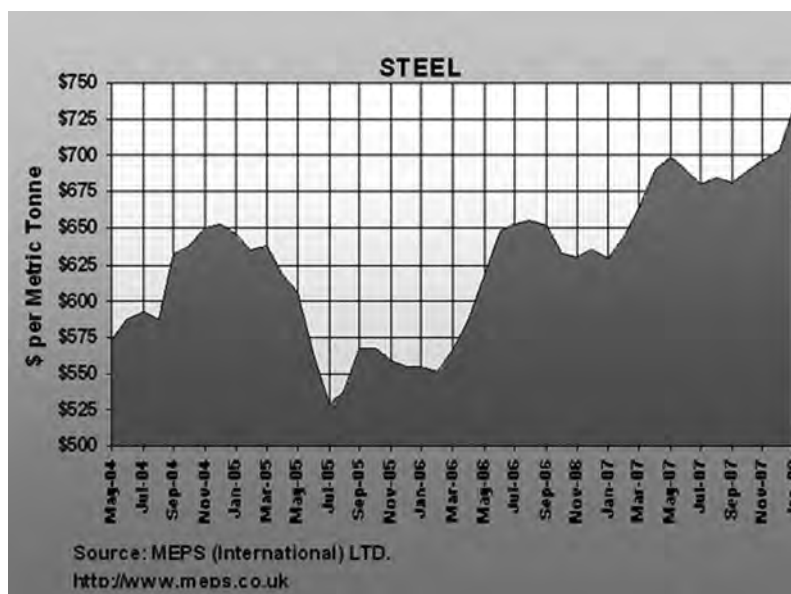


Table 1: Price of Steel 2004–2008

Table 2 shows the expected development of LNG costs up to 2040. If LNG prices continue to fall, or at least stay at an affordable level, while steel prices continue to rise, India might be tempted to import additional LNG instead of the gas from the more problematic pipeline project.

One of the most pressing hurdles today is that New Delhi and Islamabad disagree about transit fees; Pakistan is expected to receive \$500–600 million in transition fees per year from India, but Indian officials do not agree with these figures and want Pakistan to moderate its demands. Although the Asian Development Bank has found the IPI project to be viable based on economic factors and India's and Pakistan's increasing needs for energy, and the project has been described as a win-win situation for all parties, it seems as though India has been having second thoughts about continuing the joint venture during late 2007 and early 2008.⁵⁵ New Delhi has not taken part in what were supposed to be tripartite meetings since the autumn of 2007.⁵⁶

This can be explained in terms of perceptions of relative gains: states are worried that their cooperation partners will gain more than themselves from their shared accomplishments and that the other states will cheat.⁵⁷ To ensure Pakistan does not “cheat”, India has suggested several mechanisms to ensure the

55 Maleki, “Iran-Pakistan-India Pipeline...”.

56 “India to skip Tehran meeting on pipeline deal”, *Press Trust of India*, 5 February 2008, (NDTV Convergence Limited [online 19 June 2008]).

57 See for instance Joseph M. Grieco, *Cooperation among Nations: Europe, America, and Non-Tariff Barriers to Trade* (Ithaca & London: Cornell University Press, 1990).

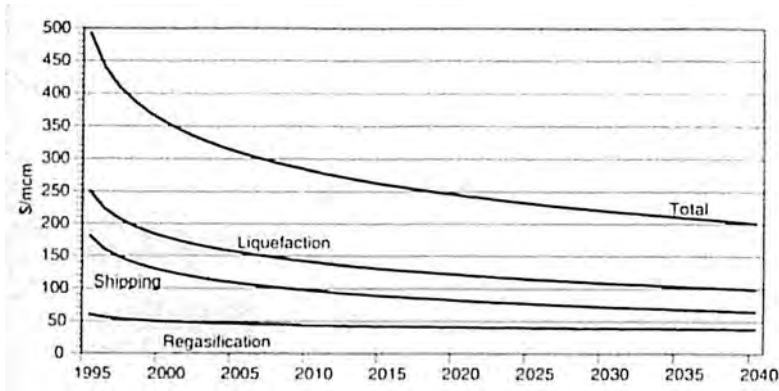


Table 2: The Cost of LNG 1995–2040. Source: Peter Hartley and Kenneth B. Medlock, III, “The Baker Institute World Gas Trade Model” in *Natural Gas and Geopolitics: From 1970 to 2040*, eds. David G. Victor, Amy M. Jaffe and Mark H. Hayes (Cambridge: Cambridge University Press, 2006), p. 379.

safe arrival of the pipeline gas from Iran through Pakistan. In addition, India is concerned that Pakistan might gain more from the project than it would. Pakistan has had similar thoughts: when Iran first broached the pipeline proposal to Pakistan, Islamabad’s Inter-Services Intelligence advised Pakistani officials not to agree to a pipeline extending to India since the availability of gas from Iran could strengthen India’s economic and industrial capability.⁵⁸ This is a clear example of how thinking in terms of relative gains can influence policy-makers.⁵⁹

Although this way of thinking is not the only reason for India’s second thoughts, it might be one influential factor. India and Pakistan have a long history of complicated conflicts and disagreements and there is strong evidence suggesting that each country, when considering cooperation, wants to make sure that the other party does not gain in relative terms. At the beginning of 2008, Pakistan seemed to be tempting India back into the project by offering to renegotiate transit fees and make them compatible with international norms.⁶⁰ Apparently, Iran, Pakistan and India have agreed on a new trilateral meeting in Tehran in July 2008 to sign the contract.⁶¹

58 Raman, “Indo-Pak Economic Ties...”.

59 Relative-gains theorist Waltz writes: “Inequality in the expected distribution of the increased product works strongly against extensions of the division of labor internationally.” Kenneth N. Waltz, *Theory of International Politics*, (New York: McGraw-Hill, 1979), p. 105.

60 “Pak says ready to lower transit fee for Iran gas to India, invites Deora for talks”, *Indian Express*, 4 February 2008 [online 19 June 2008]; “Pakistan ready to lower IPI gas pipeline fee”, *Daily Times*, 5 February 2008, (WorldCALL Internet Solutions [19 June 2008]).

61 “Peace pipeline talks next month in Tehran”, *Tehran Times*, 24 June 2008 [online 26 June 2008].

Political Obstacles

A conflict has been running between the Iranian Ministry of Petroleum and the *Majlis*' Energy Committee, in other words technocrats versus politicians.⁶² The debate is about whether Iran should export its gas, and how much gas it could export, if any. The technocrat, Narsi Ghorban, director of NarKangan International Gas to Liquid Company, has argued that

[A]lthough Iran, with the current proven gas reserves, cannot be indifferent to LNG exports in future, the priority should be given to gas injection, domestic use, gas-based industries including GTL [gas to liquid], and export by pipelines to the Indian subcontinent and Europe.⁶³

A growing number of politicians in the Parliament agree only on the first two, gas re-injection and the domestic use of gas, and argue that these two ways of using gas should be prioritised.⁶⁴ Gas re-injection into old oil fields leads to the release of more oil at the proportion of 300 cu ms of gas to 1 barrel of oil, and most of the gas would be recovered in the long term with the production of oil. Technocrats who also want to export gas point out that the gas price has risen dramatically and exports will improve the economy. The amount of gas that can be re-injected into old oil fields is limited, and pro-export technocrats argue that Iran can utilise less than 40 per cent of its reserves in the coming 25 years.⁶⁵ They also emphasise that gas export will strengthen Iran's role in the region, and improve the economy. According to an Iran-based energy consultant, Iran was interested in selling its gas in 2006.⁶⁶ Deputy Minister at that time, Nejad Hosseinian, travelled extensively trying to promote Iran's gas export internationally.

Iran shares its gas in the enormous South Pars field with Qatar, but the two countries have no joint development plan. On the contrary, according to reliable Iranian energy consultants, there is a contest between the two countries to extract gas; the greater the amount of gas extracted in the shortest time, the better.⁶⁷ Also, Iran wants to export as much gas as possible because it is not able to use all the gas itself.⁶⁸ As one renowned consulting agency in Iran has noted:

62 Narsi Ghorban, "Monetizing Iran's Gas Resources and the Debate Over Gas-Export and Gas-Based Industries Options", *Middle East Economic Survey*, vol. 49, no. 28 (10 July 2006), p. 25; and interview with consulting agency, Tehran, August 2006.

63 Narsi Ghorban, "The Need To Restructure Iran's Petroleum Industry (Revisited After Eight Years)", *Middle East Economic Survey*, vol 48, no. 24 (13 June 2005).

64 Ghorban: "Monetizing Iran's Gas Resources...".

65 Ibid.

66 Interview with energy consultant, Tehran, 4 September 2006.

67 Interview with energy consultant, Tehran, 4 September 2006.

68 Ibid.

Observing the trends in Iran in the last 20 years leads to the conclusion that technocrats always win in the end in Iran, even though it takes a lot of time and energy.⁶⁹

For a long time, pipeline cooperation between India and Pakistan was unlikely, but in 2005 both countries seemed tempted by the economic benefits and tentatively agreed to cooperation on the IPI Pipeline project. Although this tripartite cooperation is unprecedented, it has not been smooth.⁷⁰ India is worried that Pakistan will disrupt its gas supply should tensions arise between the two countries in the future.⁷¹ Pakistan, for its part, has been concerned that gas from Iran will strengthen India's economic capability.⁷²

India has also demanded that spigots be installed only in Iranian and Indian parts of the IPI Pipeline, so that Pakistan cannot stop the gas supply without destroying the pipeline and thereby cutting off its own supply. India has also demanded that if its gas supply through the IPI Pipeline is disturbed, Iran must ship the "lost" amount of gas to India at the same price as the pipeline gas.⁷³ Furthermore, India will only pay for gas delivered at its border. Iran has agreed to take responsibility for the pipeline all the way through Pakistan and to the Indian border. Because of internal opposition to and insecurity surrounding the IPI Pipeline project, New Delhi is considering alternative pipelines, among them a gas pipeline from Burma through Bangladesh and a Turkmenistan-Afghanistan-Pakistan-India gas pipeline.⁷⁴ Conversely, Burma has apparently chosen to send its gas to China, abandoning cooperation with India.⁷⁵ One reason might be the complicated relationship between India and Bangladesh.⁷⁶

India has made major new natural gas discoveries in the last few years. Most of the country's gas production comes from the Indian western offshore area, but it has also found huge gas reserves off its eastern coast in the Krishna-Godavar Basin. Ajay Dua of the Indian Ministry of Commerce and Industry said in 2006 that India could become self-sufficient in natural gas by 2012.⁷⁷ However, Dua's statement must have been more political than economic, because to cover India's fast-growing energy needs, India would need the natural gas from the IPI Pipeline in addition to all other domestic and international projects. EIA

69 Interview with consulting agency, Tehran, 29 August 2006.

70 Interview in Tehran, 10 September 2006.

71 Williams, "Decision Time Beckons".

72 Raman, "Indo-Pak Economic Ties..."

73 Williams, "Decision Time Beckons".

74 Ibid.

75 "Myanmar ditches India for China in gas deal", *Times of India*, 9 April 2007, (Times Internet Limited [online 19 June 2008]).

76 "China's Strategy of Containing India", *PINR*, 6 March 2006 [online 19 June 2008].

77 Siddharth Srivastava, "New Delhi makes concession on gas distribution", *Asia Times Online*, 6 March 2007 [online 19 June 2008].

wrote in its India Country Analysis Brief from 2007 that even though India has made major natural gas discoveries in recent years, it is taking into consideration extensive imports via LNG terminals and pipelines to help meet growing demand.⁷⁸ Nevertheless, India's new natural gas discoveries might lead to substantial and legitimate delays in the IPI project.

In New Delhi there is domestic political division over whether to support the anti-Iran policy of the US. There is an ambiguity to the Indian Prime Minister Manmohan Singh's government: on the one hand, the parliamentary coalition he heads is led by the pro-American Congress Party, yet his parliamentary coalition depends on India's communist parties to maintain a majority. Indian left-wing parties have been reluctant to support the anti-Iran policy of the US; they opposed the IAEA votes against Iran in 2005, they have not been satisfied with the US law setting the terms for the US-India nuclear deal, and they are encouraging New Delhi to keep a distance from Washington.⁷⁹ In 2007, the Communist Party of India also pressured the government to complete the IPI Pipeline deal.

Internal turmoil in Pakistan may also have made it more difficult to push through large projects such as the IPI, and such unrest might also affect Iran and India which need a stable cooperation partner. In late 2007, India stopped attending trilateral meetings on the IPI Pipeline. Islamabad has been persistent in terms of completing the pipeline project at least bilaterally. Moreover, in February 2008, Pakistani officials welcomed China joining the project, and purportedly, China said it would join if India backed out.⁸⁰ But viability testing of such a route has not yet been performed. Also, just like India, Pakistan has been looking at other pipeline alternatives, which are the US supported Turkmenistan-Afghanistan-Pakistan (TAP) gas pipeline and the Qatar-Pakistan (GUSA) pipeline.⁸¹ These have so far not seemed to be feasible. In addition, the long-running Indian-Pakistani dispute over Jammu and Kashmir has still not been resolved.

78 "India, Country Analysis Briefs", Energy Information Administration, 2007 (US Dept. of Energy [online 19 June 2008]).

79 Sharad Joshi, "India walks tightrope on relations with Tehran", *WMD Insights*, June 2007 [online 19 June 2008].

80 "China, Pakistan: The Drivers behind a Possible Natural Gas Pipeline", *Stratfor Strategic Forecasting*, 11 February 2008 [19 June 2008]; "Pakistan favours China joining IPI gas pipeline project", *Times of India*, 13 February 2008, (Times Internet Limited [online 19 June 2008]).

81 "International Gas Pipeline Projects", *Ministry of Petroleum & Natural Resources*.

Baluch Insurgency and US Opposition

Another major obstacle that may halt the realisation of the IPI Pipeline project is that of militia groups in the Pakistani province of Baluchistan. There are several activist groups in the area and the three most influential are: the Baluch Liberation Army; the Baluch Liberation Front; and the People's Liberation Army, which all have roots in local tribal structures.

Baluchistan makes up about 43 per cent of the land area of Pakistan, but is sparsely populated. The province is rich in gas and holds 36 per cent of Pakistan's total gas production, yet is still the poorest area in Pakistan.⁸² Other resources found in the province are aluminium, platinum, silver, gold, copper, coal and uranium. The Chinese-supported Port Gwadar is being built in Gwadar in Baluchistan, and for the Pakistani government, this port is the gateway to the "outside world". Pakistan also carries out nuclear bomb testing in the province. The domestic Sui gas pipeline departs from Baluchistan's gas reserves and the IPI Pipeline is planned to cross the province. Hence, Baluchistan is both economically and strategically important for the Pakistani government and China.⁸³

Nevertheless, of Baluchistan's total gas production, the province itself consumes only 17 per cent: for supplying the gas, the Pakistani government gives Baluchistan 12.4 per cent of the total income from gas production.⁸⁴ Members of Baluchi activist groups claim that injustice is being exercised against them by the "Punjabi-dominated" Pakistani government.⁸⁵ In the last two years, these groups, in particular the Baluch Liberation Army, have occasionally sabotaged the Sui pipeline as well as other energy infrastructures and railway tracks.⁸⁶ Chinese workers building Port Gwadar have been attacked by the militia and in May 2003, three Chinese engineers were killed in a bomb blast.⁸⁷ There are fears that the Baluchi militia might also attempt to sabotage the IPI Pipeline.

According to a report by Carnegie Endowment, the Baluchi activist groups are determined to prevent further exploration and development without their consent.⁸⁸ The report states that the Baluchi people want an agreement about the equal sharing of resources. One of their worries is related to the building of Port Gwadar, which is, according to the ethnic group, only profitable for the

82 Frédéric Grare, "Pakistan: The Resurgence of Baluch Nationalism", *Carnegie Endowment for International Peace*, no. 65 (2006), p. 4.

83 Ibid.

84 Ibid.

85 Interview with Nawabzada Balach Marri, self-styled leader of Baluch Liberation Army: Shazada Zulfiqar, "We have launched a struggle for Baloch freedom from the yoke of Punjab's slavery", *Baluch Voice*, September 2004 [online 19 June 2008].

86 John C.K. Daly, "The Baloch Insurgency and its Threat to Pakistan's Energy Sector", *Terrorism Focus*, vol. 3, no. 11 (21 March 2006), (The Jamestown Foundation [online 19 June 2008]); "Pakistan's Battle over Baluchistan", *BBC*, 26 August 2006 [online 19 June 2008].

87 Daly, "The Baloch Insurgency...".

88 Grare, "Pakistan: The Resurgence...", p. 5.

central Pakistani government. The population of Baluchistan is about 6 million, of which 3.5 million are ethnically Baluchi. A project like Port Gwadar would bring new settlers to Baluchistan from other areas of Pakistan and this could, according to the Baluchi people, make them a minority in their own land. Some Baluchi nationalist groups strive for an independent Baluchistan.⁸⁹

The Baluch Liberation Army's most prominent leader, Nawab Akbar Bugti, was killed by the Pakistani air force bombing his hideout in August 2006.⁹⁰ Bugti's killing led to even more unrest and destructive protests in Baluchistan.⁹¹ Even long after his death, the turmoil has continued: for instance on 9 November 2007, a gas pipeline was blown up in the Baluchi areas and disrupted gas supply to the districts of Quetta, Mastung, Qalat, Pishin and Ziarat districts.⁹² Similar attacks on different pipelines on Baluchi territory occurred in both February and March 2008.⁹³ The Baluch Liberation Army has claimed responsibility for at least one of these attacks. This continuous conflict between Pakistan's central government and the Baluchi militias makes it more difficult to develop new projects in the province. One might add that there is a substantial Baluch minority in Iran as well, and there has been some unrest in the Iranian province of Sistan and Baluchestan. In Iran, the IPI Pipeline could also be a convenient target for insurgents.

Another important obstacle is the US and its fear of losing influence on the Indian subcontinent. The US has warned India and Pakistan against cooperating with so-called "terrorist states", such as Iran. In March 2006, George W. Bush expressed his understanding for Pakistan's and India's growing needs for energy. However, before long he reconfirmed his opposition to the IPI Pipeline.⁹⁴ The Bush Administration soon after offered to build India nuclear power plants to meet the country's rapidly growing energy needs.

Washington has also been accused of trying to hinder Pakistan from joining the IPI Pipeline project by giving Pakistan generous annual "aid" and agreeing to sell it F-16 war planes.⁹⁵ According to the US, Iran may turn to the "gas weapon" to blackmail Pakistan and India if the IPI Pipeline materialises.⁹⁶ As US

89 Ibid., p. 7.

90 Ahmed Rashid, "Rebel Killing Raises Stake in Pakistan", *BBC*, September 2006 [online 19 June 2008].

91 "Press unease at Baloch killings", *BBC*, 30 August 2006 [online 19 June 2008].

92 "Gas pipeline blown up in Balochistan", *Topnews.in*, 9 November 2007 (Drupal [online 19 June 2008]).

93 See for instance "Gas pipeline blown up in Quetta's outskirts", *Daily Times*, 4 March 2008, (WorldCALL Internet Solutions [online 19 June 2008]); "Gas pipeline blown up", *Dawn*, 25 February 2008 [online 19 June 2008].

94 "US "Strongly Opposes" a Rival Pipeline from Iran", *Iran Mania*, 16 August 2006 [online 19 June 2008].

95 "Bush Backs F-16 sale to Pakistan", *BBC*, 29 June 2006 [online 19 June 2008].

96 Williams, "Decision Time Beckons".



Map 2: Baluchi Areas of Afghanistan, Iran and Pakistan.

Source: University of Texas.

Secretary of State Condoleezza Rice stated to the Senate Relations Committee in April 2006:

[T]he cause of the behaviour of Iran concerning the entire international community about what its intentions are toward a nuclear programme, the unreliability of that Iranian oil and gas supply has got to be taken into account.⁹⁷

Rice also said that the US' nuclear deal with India was motivated by a desire to weaken any reliance on Iran, commenting:

[I]f India has access to civil nuclear [power], they are going to forgo other relationships. It does give them, in many ways, a better option for a more reliable energy supply than being dependent on states that, from time to time, brandish the oil and gas weapon when they don't like the behaviour of other states.⁹⁸

The Bush Administration claims that it is involved in the plan to build a pipeline from Central Asia to India, the Turkmenistan-Afghanistan-Pakistan-India

97 Ibid.

98 Ibid.

(TAPI) Pipeline,⁹⁹ and argues that it will not accept the completion of the rival IPI Pipeline.¹⁰⁰ As mentioned above, the TAPI Pipeline project has not yet been proved to be feasible.¹⁰¹ Nevertheless, even if it does turn out to be viable, India's Oil Minister, Murli Deora, has stated that it can only be an addition to the IPI Pipeline and not a substitute.¹⁰²

Since 2006, the UN Security Council has imposed new and stricter sanctions on Iran due to the country's refusal to suspend its uranium-enrichment programme. These sanctions have made it even more difficult for both India and Pakistan to join the IPI Project, as they would face problems if they assisted Iran in building its part of the pipeline.¹⁰³ Also, current US law calls for penalties against foreign companies that invest more than \$20 million a year in Iran's energy sector.¹⁰⁴ In addition, the US and Israel have not ruled out the option of a military attack on Iran. It is clear that the Bush Administration intends to isolate Iran economically and strategically in the region, and is thus warning India and Pakistan against signing the IPI Pipeline deal with the Islamic Republic. Nevertheless, India, Pakistan, and Iran plan to build the sectors of the pipeline as separate projects, which is a way to avoid sanctions.¹⁰⁵

The only reason for US opposition to the IPI project is not, however, that the US has deemed Iran a "terrorist state"; energy security is one of USA's reasons to prevent the project. It is known that the US considers China to be a potential rival in the "New Great Game", and ideas of extending the IPI Pipeline to China have been brought to the table. India is also a potential competitor to the US in terms of global energy supplies, even though Washington and New Delhi have entered a new stage in a strategic partnership. In addition, within India itself, the country's relations with the US can be a point of friction as not all Indian parties are pro-American.

99 This is the same project as the Turkmenistan-Afghanistan-Pakistan Pipeline mentioned above, with an extension to India.

100 "US "Strongly Opposes" a Rival Pipeline from Iran", *Iran Mania*.

101 *Ibid*.

102 Williams, "Decision Time Beckons".

103 Interview with energy consultant, Tehran, 4 September 2006.

104 Joshi, "India walks tightrope...".

105 Interview in Tehran, 10 September 2006; Paranjy Guha Thakurta, "Iran-Pakistan-India Gas Pipeline in Trouble", *Inter Press Service News Agency*, February 2006 [online 19 June 2008].

ALTERNATIVE SCENARIOS TO THE IPI PIPELINE

Today and in the near future, because of the obstacles the IPI Pipeline faces, other scenarios could be more likely: the first scenario would emerge if Iran's negotiations with Pakistan and India were to fail. In this case, the IPI Pipeline might be limited to being a domestic Iranian pipeline. In scenario two, India would back out of the pipeline deal and Iran would send its gas only to Pakistan. With an Iran-Pakistan pipeline, the gas could also be sold to China in the form of LNG. Scenario three would be an Iran-Pakistan-China pipeline.

A Domestic Iranian Pipeline

Should negotiations between Iran, Pakistan, and India fail, Iran could still use the gas itself. An Iran-based consulting agency believes that the Peace Pipeline would at least be built within Iran's borders, and that it would go through Iran's less developed areas.¹⁰⁶ This would lead, according to the agency, to more jobs and better infrastructure in large parts of Iran's neediest areas.¹⁰⁷ In spite of ongoing negotiations surrounding the IPI Pipeline, the Iranians have apparently already planned and signed for a domestic pipeline.¹⁰⁸

On 8 June 2006, the Iranian Minister of Petroleum, Vaziri-Hamaneh, signed a pipeline contract with Khatam ol-Anbia, the engineers of the Islamic Revolutionary Guard Corps of Iran. Khatam ol-Anbia was awarded the project, which goes under the name of IGAT-7 (Iranian Gas Trunkline no. 7), without a tender.¹⁰⁹ This has made the Majlis question the Iranian government's reason for awarding Khatam ol-Anbia the IGAT-7 project.¹¹⁰ There is a possibility that the project is *rent seeking*, meaning that the project might have been awarded to close friends of the regime, so that they can use it for personal interests.

The cost of the project is estimated to be \$1.3 billion, and the length of the pipeline is planned to be 920 kilometres.¹¹¹ According to the contract, it will take 30 months to complete the domestic pipeline project.¹¹² The IGAT-7 will connect the gas hub of Assaluyeh with Iranshahr in Iran's Sistan and Baluchistan

106 Interview with consulting agency, Tehran, 29 August 2006.

107 Ibid.

108 "Gas Pipeline: Iran", *Nab- und Mittelost-Verein* (NUMOV), 2006 [online 19 June 2008]; Interview in Tehran, 10 September 2006.

109 "Gas Pipeline: Iran", *Nab- und Mittelost-Verein*.

110 "Majlis Attacks IGAT-7 Award", *Middle East Economic Digest*, 21 July 2006 (Emap [online 19 June 2008]).

111 Interview with energy consultant, Tehran, 4 September 2006.

112 "\$1.3b Gas Pipeline Contract Signed", *Iran Daily*, 8 June 2006 [online 19 June 2008].

province close to the Pakistani border. If the IPI project materialises, Iran will most likely extend the gas pipeline to India through the IGAT-7.¹¹³

The diameter of the IGAT-7 is 56 inches and there are various opinions about whether it will be big enough to cover the gas demand of both Pakistan and India.¹¹⁴ If it can only cover Pakistan's gas needs from Iran, building a parallel pipeline to cover India's needs as well has been suggested. Others disagree and believe that a 56-inch pipeline can transport enough gas for both Pakistan and India. The outcome of this discussion, however, depends on the amount of natural gas India and Pakistan ultimately decide to import, and how much Iran will be able to export. Nevertheless, the IGAT-7 seems to be an actual project and may be regarded as the domestic Iranian version of the IPI Pipeline. According to some sources, Iran had already finished constructing half of the domestic pipeline in June 2007.¹¹⁵

A Pipeline with LNG Transports from Gwadar to China

If only an Iran-Pakistan pipeline is built, Pakistan will lose its opportunity for income from transit fees from India. Nevertheless, support from Pakistan's close ally China might ease Islamabad's economic difficulties. In Beijing, energy security is a top priority: China needs to feed its fast growing economy. Consequently, China is becoming increasingly dependent on imported energy, especially oil and gas, to sustain its economic growth. There is a widening gap between domestic oil and gas production and consumption, which means that China will become more and more dependent on imports. Estimates show that China's primary energy demand will climb from 1742 Mtoe in 2005 to 3819 Mtoe in 2030.¹¹⁶ Of China's total energy consumption, the natural-gas part is expected to rise from 3 per cent in 2007 to 9 per cent in 2020.¹¹⁷ Among many other areas, the People's Republic has shown great interest in Iranian oil and gas.

As mentioned above, China is assisting Pakistan construct a deep-water port in Gwadar. The Pakistani side has proposed building LNG terminals in Gwadar to transform the piped natural gas from Iran into LNG and export it to China. This has been proposed to the Iranians, and was suggested after India started backing out of the IPI Pipeline negotiations in 2007. From Gwadar to China the LNG can be transported by rail, road or ships. The Pakistani Ministry

113 "Gas Pipeline: Iran", *Nah- und Mittelost-Verein*.

114 Interview in Tehran, 10 September 2006; interview in Tehran, 18 September 2006.

115 "Iran completes 50 % of its share for pipeline to India", *Tehran Avenue*, 2007 [online February 2008].

116 International Energy Agency, *World Energy Outlook 2007: China and India Insights* (Paris: IEA), p. 283. Mtoe = million tonnes of oil equivalent.

117 "China 2020 Natural Gas Consumption Seen at 9% of Energy Total", *China Economic Information Network*, 21 September 2007 [online 19 June 2008].

of Railways is studying the feasibility of laying a railway line on the route.¹¹⁸ The Karakoram Highway is already planned to follow the same course.

Today, an increasing number of Chinese energy imports arrive by ship, although shipping gas from the Gulf to China is risky. Along the tank-ship route from the Gulf to the South China Sea, the narrow straits of Hormuz and Malacca have to be crossed, which are vulnerable to accidents, military blockades and terrorism. China has indicated a wish to reduce its dependency on energy imports from the Gulf because of the security risk of the sea route, but its growing economy has not allowed the country to do so, and in fact, its dependency is increasing. LNG from Gwadar will give China an alternative land route for its energy supplies. Furthermore, the western parts of China are in specific need of energy because China has built much energy-demanding industry in these areas. The land route from Gwadar to western China is much shorter than the alternative sea and land route, which passes the Gulf of Oman, the Indian Ocean, and the South China Sea, before crossing the greater part of China.

Whether an Iran-Pakistan pipeline transporting LNG to China can be realised depends on Iran's willingness to export the gas to China instead of India, as well as the price China is willing to pay. Some sources say that India generally offers better prices than China.¹¹⁹

An Iran-Pakistan-China Pipeline

Another way for China to secure overland supplies is via an extension of the pipeline from Pakistan. Beijing has earlier shown its interest in an extension of the pipeline from India after a proposal from New Delhi. India's Minister for State for Planning, M. V. Rajashekharan, said in April 2005 that once gas comes to India, the pipeline can be extended to China.¹²⁰ Also, the Chinese ambassador to India, Sun Yuxi, expressed in 2005 that:

[A]s far as the extension of the Iran-India gas pipeline to China is concerned, Beijing does not have any political problem with it, finding it a very good idea.¹²¹

118 "Pakistan, Iran agree on gas pricing formula, accord today", website of *Mekran Construction Company*, 8 November 2008 [online 19 June 2008].

119 Siddharth Srivastava, "Iran gas: China waits as India wavers", *Asia Times*, 6 March 2008 [online 19 June 2008].

120 Ibid.

121 "Iran-India-China Gas Pipeline Idea", *ArabicNews*.

Chinese interest in an Iran-Pakistan-China (IPC) pipeline is apparently very real.¹²² Because of fewer transit fees and a shorter route, an IPC pipeline is probably more financially and technically feasible than an extension of the IPI Pipeline to China. An IPC pipeline would presumably take the route from Pakistani Baluchistan towards the north across Punjab into the eastern areas of the North-West Frontier Province through the Federally Administered Northern Areas, and into the Chinese areas of Kashmir. By taking this route, the pipeline would avoid Pashtun areas, and thus a greater risk of sabotage. Although it would be difficult to lay a pipeline along this route over the tricky mountainous terrain, it is supposed to be possible.

According to the private intelligence agency Stratfor, China has both the political will and the cash to make the pipeline a reality. However, Indian media have expressed that New Delhi is not taking the threat of China assuming India's stake in the pipeline project seriously, and that any talk of replacing India with China in the pipeline project is mere pressure tactics from the Iranian and Pakistani sides.¹²³ An IPC pipeline might become a reality if India confirms its withdrawal from the IPI project, which is not likely in the near future, and if the pipeline proves to be viable. A fact that makes such a pipeline more manageable is the unproblematic relationship between Pakistan and China; but India will not give up its spot for China just like that.

122 "Pakistan favours China joining IPI gas pipeline project", *Times of India*; "China ready to join IPI gas project: report", *Islamic Republic News Agency*, 11 February 2008 [online 19 June 2008].

123 Srivastava, "Iran gas..."; and "China pipeline entry an empty threat", *Rediff News*, 14 February 2008 [online 19 June 2008].

SPILLOVER EFFECTS

That the materialisation of the IPI Pipeline in the nearest future is unlikely does not seem to be a far-fetched conclusion. However, the prospect of realisation in the long term is still present, at least as long as the parties involved continue to meet. Talks about the pipeline started in the mid-1990s, but the first real negotiations took place only in 2005. Energy has been Iran, Pakistan, and India's incentive to meet and the rounds of bilateral and trilateral meetings between them have the potential to lead to different kinds of spillover effects to sectors such as diplomacy, economics and security. Here, I shall deal specifically with the few years before and after 2005 when trilateral negotiations started.

Diplomatic Spillovers

The first and most obvious spillover effect is diplomatic. Negotiations over a project such as the IPI require positive action in the form of an everyday commitment from the different parties to cooperate. They also require a willingness to make progress on that very project, separating the project negotiations from other potentially difficult issues.

When *India and Pakistan* started looking at the IPI project in the early 1990s, both countries appeared determined to link the pipeline to political issues: Islamabad sought to use the pipeline to make progress on the Kashmir issue, while India demanded Pakistan lift bilateral trade restrictions and linked the IPI talks to conditions of transit rights for trade links with Afghanistan.¹²⁴ After the Pakistani and Indian nuclear tests in 1998, followed by the Kargil conflict in 1999, the security relationship between the two countries deteriorated considerably, and probably became worse than ever. High-level talks after Kargil between Islamabad and New Delhi froze for a while. A round of peace talks between the two parties started in 2004, initially without much progress. After the first round of the composite dialogue process between India and Pakistan, the *Kashmir Telegraph* wrote:

The just concluded first round of the composite dialogue process between India and Pakistan witnessed a war of words stretched to the limits of inimical diplomatic exchange. The foreign ministers of India Natwar Singh and Pakistan Khurshid Mehmood Kasuri said everything that one hoped would not be said, in a public platform.¹²⁵

124 Temple, "The Iran-Pakistan-India Pipeline...", p. 26.

125 "Oiling' the Indo-Pak Peace Process", *Kashmir Telegraph*, vol. 4, no. 5 (September 2004), [online 19 June 2008].

However, there was also a silver lining to the same meeting: the IPI Pipeline was mentioned as a possible future cooperation project. After the meeting, Kasuri expressed that India and Pakistan had recognised the importance of access to energy resources in the region. This joint understanding of possible energy cooperation made the foundation for an everyday commitment between Pakistan and India, which has been significant in forming the Indo-Pakistani bilateral relationship during the last few years, and for the first time led the two into a joint project with the participation of a third party. In 2005, when the meetings about the IPI project first took place, they were held bilaterally. This was apparently a move intended to keep the focus on the Pipeline and away from political disputes between India and Pakistan.¹²⁶ Additionally, at that time India needed to negotiate only with Iran and left any necessary negotiations with the Pakistanis to the Iranians. Eventually in 2005, India and Pakistan agreed to keep politics and pipeline negotiations separate. At the end of the same year India agreed on a trilateral IPI meeting and the first one of that kind took place in January 2006.¹²⁷ During this first trilateral meeting the three parties agreed on most of the important aspects of the IPI Pipeline. In addition to officials from Iran, Pakistan and India, major players from the gas industry attended the meeting.

In the years before de facto IPI Pipeline negotiations began, *India and Iran* had already initiated a healthy dialogue and signed a number of MoUs on bilateral cooperation. They also discussed different options for an Iran-India pipeline (bypassing Pakistan). Furthermore, their bilateral relationship has made rapid progress since the serious negotiations about the IPI Pipeline started, in spite of the emergence of difficulties in the relationship in 2005. According to the Indian Ministry of External Affairs:

The year 2004–05 saw further deepening and consolidation of India-Iran ties. The increased momentum of high-level exchanges, institutional linkages between their National Security Councils and Joint Commission Meeting were the highlights in 2004–05.¹²⁸

In February 2005, India and Iran held a new Joint Commission Meeting. During the same year, the two parties also met in the Fourth Round of Strategic Dialogue, the First Round Table of Asian Ministers on Regional Cooperation in the Oil and Gas Economy, and the India-Iran third Special Joint Working Group. In 2005, it was also confirmed that the two parties had started cooperating in the development of the alternative sea-access route for Afghanistan through

126 Temple, "The Iran-Pakistan-India Pipeline...", p. 7–8.

127 Temple, "The Iran-Pakistan-India Pipeline...", p. 8.

128 "Annual Report 2004–2005", *Indian Ministry of External Affairs*, [online 19 June 2008], p. 6.

Iran's Chahbahar port.¹²⁹ Furthermore, in September 2006 Iran's President Ahmadinejad stated that "Iran sets no limit for further expansion of ties with India", and India's Prime Minister said at the same time that "Indian people are deeply interested in Iranian culture" and that "India is determined to consolidate cultural, economic and political ties with Iran".¹³⁰ Notwithstanding the pressure India faces from the US as well as India's concerns about Iran's nuclear programme, New Delhi continues to cling on to its relationship with Tehran, mostly due to Iran's huge fossil-fuel reserves. New Delhi might be forced to choose between a supply of natural gas from Iran or a supply of nuclear goods from the US; this does not seem to be an easy decision to make.¹³¹

In the 1990s, the *Pakistan and Iran* bilateral relationship deteriorated due to difficult problems such as the Shiite-Sunni conflict in Pakistan, Iran's improving bilateral relationship with India, and different views on the issue of Afghanistan, also mentioned above.¹³² Pakistan post 9/11 changed its policy towards the Taliban and sided with the international coalition against this Afghan group. This, combined with a visit by the Iranian President Mohammad Khatami to Pakistan in December 2002, alleviated some tensions, but the relationship nevertheless moved very slowly towards normalisation. A number of official confidence- and security-building measures had been initiated by Iran and Pakistan at that time, but in reality cooperation in both the economic and security sectors was very limited between the two countries.¹³³ In 2004, at a Pak-Iran Joint Ministerial Commission at which among other matters an Iran-Pakistan pipeline was discussed, the two sides agreed to sign a number of MoUs and agreements and called for increased bilateral trade.¹³⁴ In February 2005, the Pakistani news agency Dawn wrote the following right before the visit of the Pakistani Prime Minister, Shaukat Aziz, to Tehran:

The main thrust of the Iran visit will be strengthening bilateral relations by enhancing trade and economic cooperation, sources said, adding that in this context the trans-Pakistan gas pipeline to India will figure prominently in the discussions as will be the possibility of other joint infrastructure ventures.¹³⁵

129 "Annual Report 2005–2006", *Indian Ministry of External Affairs*, [online 19 June 2008], p. 47.

130 "President Supports Stronger India Ties", *Iran Daily*, 18 September 2006.

131 Joshi, "India walks tightrope...".

132 Ahmed Montazeran and Kashif Mumtaz, "Iran-Pakistan: Cooperation for Regional Stability and Peace", *Strategic Studies*, vol. XXIV, no. 1 (Spring of 2004) [online 19 June 2008].

133 Shireen M. Mazari, "Iran-Pakistan Cooperation in the New Strategic Environment", *Strategic Studies*, vol. XXII, no. 1 (spring of 2002).

134 "Pakistan-Iran agree to enhance cooperation in Investment, Trade", *Pakistan Times*, 5 March 2004 [online 19 June 2008].

135 "Four agreements to be signed with Iran", *Dawn*, 19 February 2005 [online 19 June 2008].

An everyday commitment to cooperate has developed in the relationship between Iran and Pakistan during the last few years. Although this is not due to the interest in the IPI Pipeline alone, it cannot be denied that the pipeline appears to be a strong factor behind it. In March 2008, the *Tehran Times* described the IPI Pipeline project as the “pearl of relations” between Tehran and Islamabad.¹³⁶

Before the IPI Pipeline negotiations had begun, Iran, Pakistan and India had poor relations. The three countries’ high-level meetings have made the foundation for intensified bilateral and trilateral diplomatic bonds. It is somewhat unlikely that a diplomatic atmosphere of this nature would have been created between the three countries without the negotiations on the IPI Pipeline.

Economic Spillovers

Addressing the IPI Pipeline project group, former Pakistani Foreign Minister Khurshid Mehmood Kasuri said in 2004:

If our security concerns are adequately addressed, this project could turn out to be the economic bedrock which could buttress many more economic cooperation proposals.¹³⁷

After a Pak-Iran Joint Ministerial Commission the same year, the *Pakistan Times* described the two parties’ views on the reconsideration of the pipeline project, agreement on road transportation, and the making of an Iran-Pakistan Joint Investment Company:

The two sides expressed satisfaction over progress on these issues and hoped that agreement to this effect would be finalized soon which would subsequently lead to establishment of an effective communication and financial infrastructure between the two countries to further promote economic cooperation.¹³⁸

Trade between Iran, Pakistan and India has increased substantially since the negotiations on the IPI Pipeline started. It is difficult to assess the direct effect of the IPI Pipeline project, however, and other factors such as more or less successful preferential and free-trade agreements have clearly contributed to improving trade relations.

136 “Iran, Pakistan look to the future”, *Tehran Times*, 18 March 2008 [online 19 June 2008].

137 “‘Oiling’ the Indo-Pak Peace Process”, *Kashmir Telegraph*.

138 “Pakistan-Iran agree to enhance cooperation in Investment, Trade”, *Pakistan Times*, 5 March 2004 [online 19 June 2008].

In the late 1990s and early 2000s *Pakistan* did not wish to discuss trade relations with *India* before the two parties had found a resolution to their dispute over Kashmir, and the conflict was accordingly a primary cause of their bad trade relations.¹³⁹ For a long time, due to the two countries' political spurs, trade between Pakistan and India only occurred through the illegal smuggling of goods.¹⁴⁰ Today, India and Pakistan have still not found a solution to the Kashmir issue, but due to a better diplomatic atmosphere it has become easier to cooperate in other economic areas. There are strong indications that negotiations on the IPI Pipeline have contributed to making this diplomatic atmosphere.

In April 2005, the Indian Prime Minister Manmohan Singh and the Pakistani President Pervez Musharraf made a joint statement, tentatively agreeing to revive a panel to promote trade and secure more confidence-building measures. The two parties agreed to explore further the possibility of an IPI Pipeline, and also to enhance economic and commercial cooperation in general.¹⁴¹ In October 2005, India and Pakistan decided to re-establish the Joint Economic Commission after 16 years.¹⁴² Two years later, a goods truck crossed the border between India and Pakistan for the first time in 60 years.¹⁴³ Total trade between Pakistan and India increased from \$251.01 million in 2002–2003 to \$1,671.55 million in 2006–2007. In other words, their bilateral trade increased by more than six times in a period of four years. Pakistan saw a seven-fold hike in its exports to India and India's exports to Pakistan increased by six times in the same period of time. The balance of trade has so far been in Pakistan's favour.

139 Raghav Thapar, "SAARC: Ineffective in Promoting Economic Cooperation in South Asia", *Stanford Journal of International Relations*, vol. 7, no. 1 (Winter 2006), [online 19 June 2008], p. 3.

140 Thapar, "SAARC: Ineffective in Promoting...", p. 4.

141 "India, Pakistan agree to enhance economic, commercial cooperation", *Hindu Business Line*, 18 April 2005 [online 19 June 2008].

142 "Pakistan, India Re-Establish Economic Cooperation Commission", *Voice of America*, 4 October 2005 [online 19 June 2008]; "India-Pakistan Joint Statement", *BBC*, 18 April 2005 [online 19 June 2008].

143 "India and Pakistan in trade boost", *BBC*, 1 October 2007 [online 19 June 2008].

Year	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Export	206.16	286.94	521.05	689.23	1,348.55
%Growth		39.18	81.59	32.28	95.66
India's total export	52,719.43	63,842.55	83,535.94	103,090.54	126,262.68
%Growth		21.10	30.85	23.41	22.48
%Share	0.39	0.45	0.62	0.67	1.07
Import	44.85	57.65	94.97	179.56	323.01
%Growth		28.54	64.75	89.06	79.89
India's total import	61,412.13	78,149.11	111,517.44	149,165.73	185,604.10
%Growth		27.25	42.70	33.76	24.43
%Share	0.07	0.07	0.09	0.12	0.17
TOTAL TRADE	251.01	344.59	616.03	868.79	1,671.55
%Growth		37.28	78.77	41.03	92.40
India's total trade	114,131.56	141,991.66	195,053.38	252,256.27	311,866.78
%Growth		24.41	37.37	29.33	23.63
%Share	0.22	0.24	0.32	0.34	0.54
TRADE BALANCE	161.31	229.29	426.08	509.67	1,025.54
India's trade balance	-8,692.70	-14,306.55	-27,981.49	-46,075.19	-59,341.42
Exchange rate:(1 US\$ = Rs.)	48.3953	45.9516	44.9315	44.2735	45.2849

Table 3: India's Trade with Pakistan 2002–2007 (in mill. \$US)¹⁴⁴

According to an article in *Asia Times* in 2005, energy cooperation between *Iran and India* was already mirroring relations in other arenas, including trade and military cooperation.¹⁴⁵ Excluding petroleum products and crude-oil imports, total trade between India and Iran increased from \$913.03 million in 2002–2003 to \$9,071.52 million in 2006–2007. In other words, it increased by almost ten times in a period of four years. Iran's imports from India more than doubled in this period, while India's imports from Iran increased by almost 30 times. Ira-

144 The country's total imports do not include the import of petroleum products and crude oil. "Pakistan", *Export Import Data Bank, Indian Department of Commerce, 2007* [online 19 June 2008].

145 Chietigj Bajpae, "India, China locked in energy game", *Asia Times Online*, 17 March 2005 [online 19 June 2008].

nian crude oil accounts for about 85 per cent of India's imports from Iran each year.¹⁴⁶ The balance of trade has accordingly been in Iran's favour.

Year	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
EXPORT	654.73	918.11	1,231.39	1,188.35	1,449.67
%Growth		40.23	34.12	3.50	21.99
India's total export	52,719.43	63,842.55	83,535.94	103,090.54	126,262.68
%Growth		21.10	30.85	23.41	22.48
%Share	1.24	1.44	1.47	1.15	1.15
IMPORT	258.30	266.82	410.21	702.46	7,621.85
%Growth		3.30	53.74	71.24	985.02
India's total import	61,412.13	78,149.11	111,517.44	149,165.73	185,604.10
% Growth		27.25	42.70	33.76	24.43
%Share	0.42	0.34	0.37	0.47	4.11
TOTAL TRADE	913.03	1,184.93	1,641.60	1,890.81	9,071.52
%Growth		29.78	38.54	15.18	379.77
India's total trade	114,131.56	141,991.61	195,053.38	252,256.27	311,866.78
% Growth		24.41	37.37	29.33	23.63
% Share	0.88	0.83	0.84	0.75	2.91
TRADE BALANCE	396.43	651.28	821.18	485.89	
India's trade balance	-8,692.70	-14,306.55	-27,981.49	-46,075.19	-59,341.42
Exchange rate: (1 US\$=Rs.)	48.3953	45.9516	44.9315	44.2735	45.2849

Table 4: India's Trade with Iran 2002–2007 (in mill. US\$)¹⁴⁷

It is especially interesting to note how total trade in both cases has increased dramatically from 2005–2006 to 2006–2007, right around the period when

146 K. Alan Kronstadt and Kenneth Katzman, "India-Iran Relations and U.S. Interests", *CRS Report for Congress, Congressional Research Service*, 2 August 2006 [online 19 June 2008].

147 The country's total imports do not include the import of petroleum products and crude oil. "Iran", *Export Import Data Bank, Indian Department of Commerce*, 2007 [online 19 June 2008].

substantial negotiations on the IPI Pipeline started. Total trade figures between Iran and India increased by five times in this short period of time, while bilateral trade between India and Pakistan saw a doubling.

Iranian-Pakistani trade relations have also improved in the last few years. In 2004, their bilateral trade had actually been declining at around three per cent for some time.¹⁴⁸ The table below shows that the trade figures between Pakistan and Iran were low also before 2004.

Year	Export	Import	Balance of Trade	Total Exports Of Pakistan	%Share in Total Exports	Total Imports of Pakistan	%Share in Total Imports
1997-98	23.560	157.625	- 134.07	8627.663	0.27	10118.021	1.56
1998-99	12.126	82.353	- 7023	7779.285	0.16	943.656	0.87
1999-00	11.875	134.769	- 122.89	8568.599	0.14	10309.425	1.31
2000-01	24.000	370.580	- 346.58	9201.595	0.26	10728.918	3.45
2001-02	29.201	157.243	- 128.04	9202.218	0.32	10342.865	1.52

Table 5: Trade between Pakistan and Iran 1997–2002 (in mill. US\$). “Trade between Pakistan & Iran”, *The Federation of Pakistan*, Chambers of Commerce & Industry, 2002 [online 19 June 2008].

In March 2004, at a Pak-Iran Joint Ministerial Commission, the two countries made seven economic development agreements, including a preferential trade agreement. Among the topics discussed at this meeting was the construction of a gas pipeline from Iran to Pakistan, a prospective Iran-Pakistan Joint Investment Company, as well as the enhancement of air, road and rail links. In the same month, Iran’s former First Vice President Mohammad Reza Aref called upon the Pakistani and Iranian private sectors to form joint ventures. At the same time, he made it clear that there were some hurdles to strengthening economic ties between the two countries. Bilateral trade between Iran and Pakistan stood at \$376 million in 2005, with a trade balance in Iran’s favour. In the same year, the two countries set a common trade target of \$1 billion by signing various bilateral trade agreements and setting up a Joint Investment Company with an initial capital of \$25 million.¹⁴⁹ In 2006–2007 the two countries’ bilateral trade increased to \$573.30 million. Imports to Pakistan were \$405.80 million, and

148 “Iran, Pakistan to facilitate growth in private sector”, *Pakistan Times*, 7 March 2004 [online 19 June 2008].

149 “Pakistan and Iran set \$1 billion trade target”, *Daily Times*, 24 February 2005 [online 19 June 2008].

imports to Iran stood at \$167.50 million.¹⁵⁰ However, although today there are remaining difficulties in Iranian-Pakistani bilateral trade relations, both parties are seeking to find solutions and are still hoping for further expansion of their two-way trade.¹⁵¹

Future Spillovers

Iran, Pakistan and India have had an excuse to meet because of their joint interest in the IPI Pipeline project. At many of the meetings at which the IPI Pipeline has been the key topic, other possibilities of economic cooperation have also been proposed.¹⁵² This has in turn created more common ground on the basis of which to meet and led to increased interaction between the different parties. Bilateral trade between all three countries, especially in Iranian-Indian and Indian-Pakistani relations, has increased significantly since 2005. There are strong indications that Iran, Pakistan and India's joint interests in the Pipeline is one important reason behind the higher levels of trade, and just as importantly, for making the right environment for enhancing trade relations. It has to be noted that compared to the countries' full economic cooperation potential, the increase is just a tiny fraction. Nevertheless, although Iran, Pakistan and India still have a long way to go, the stronger economic cooperation between them could eventually spill over to cooperation within the security sector.

When economic cooperation between states grows stronger, the states' dependence on each other increases. Improved economic relations tend to encourage states to develop other potential areas of cooperation. In the case of the IPI project, the different parties have met on a political level due to their joint interest in discussing the pipeline. Such meetings, when constructive, lead to an enhanced understanding of one another. As the interaction and understanding intensify, they create the fundament for building trust. This can, in turn, reduce the risk of conflict and even lead to cooperation within security matters. And enhanced trust may also increase the chances of the IPI Pipeline materialising.¹⁵³

150 "Saeid Kharazi for steps to boost Pakistan-Iran Trade", *Pakistan Times*, 21 January 2008 [online 19 June 2008].

151 "Iran, Pakistan to Expand Bilateral Trade", *Developing 8 Countries*, 20 January 2008 [online 19 June 2008].

152 See for instance "Iran ready to sign IPI gas pipeline pact soon", *Thaindian News*, 6 March 2008 [online 19 June 2008].

153 These thoughts are in line with complex interdependence theorists. See for instance Robert Keohane and Joseph Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown and Company), 3rd edition 2000.

Conclusion

As long as India, Iran and Pakistan continue to meet trilaterally, and there are no better and financially more attractive alternatives than the IPI Pipeline, the possibility of the realisation of the multilateral project cannot be ruled out. However, before materialisation can occur, the three countries have to solve the obstacles that I have discussed in this study. The most challenging hurdles, in my opinion, are US opposition and the politics of Indo-Pakistani relations, which in turn are interwoven with Indian and Pakistani domestic politics. Since Iran, Pakistan and India have different kinds of bilateral relations with the US, it is difficult for the three countries to find solutions that are acceptable to all three of them – and to the United States. Resistance stemming from the troubled state of Indo-Pakistani relations could disappear only if the two countries managed to normalise their bilateral affairs. But building trust after having been through three wars takes time.

A domestic Iranian pipeline is apparently already being built according to the first scenario above. Furthermore, I would consider an Iran-Pakistan pipeline to be quite likely in terms of political viability. The economic feasibility of such a bilateral pipeline is uncertain as Pakistan would then miss out on considerable transit fees from a third party.

If India feels obliged to back out of the IPI project, China will be drawn into the picture. The People's Republic has already shown great interest in Iranian oil and gas and is spending a significant amount of resources to build the Port of Gwadar. Nevertheless, it is unclear whether India can afford to withdraw from the IPI project considering the country's foreseen shortage in energy supplies. New Delhi has already lost the opportunity of one pipeline deal with Burma and Bangladesh and the prospective TAPI Pipeline is still far from a reality.

A number of studies have been conducted showing how a materialised IPI Pipeline could help strengthen Indo-Pakistani relations. In this paper I have argued that the negotiations on the IPI project have already helped build bonds and create openings for more cooperation in the diplomatic and economic sectors. This, in turn, may alleviate antagonisms and lead to security cooperation between Iran, Pakistan and India.

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