

Iran-Pakistan Gas Pipeline: Cost-Benefit Analysis

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Abstract

Iran-Pakistan (IP) Gas Pipeline is considered a controversial project in Pakistan. A large number of professionals believe that IP Gas Pipeline is an energy lifeline for Pakistan. In their view, due to common borders with Iran, financially and geographically it is the most viable option for this country. They argue that the project will be sustainable in terms of sufficient gas reserves of Iran, the overall cost of project is appropriate and price of gas is also reasonable. However, some other experts have totally different views and in the prevailing geopolitical and economic implications with regard to US and UN sanctions on Iran, they consider that this project is not feasible. In order to understand pros and cons of IP Gas Pipeline, this paper is an effort to critically evaluate the suitability of this project. It also attempts to explore possible answers to some important questions. For instance, what are the other available options for Pakistan to meet its energy requirements? Why Pakistan has opted for IP Gas pipeline in spite of US opposition? What would be the implications of US and UN sanctions on Iran? Is the cost-benefits analysis of the project in favour of Pakistan? What political and diplomatic measures should Pakistan undertake to counter negative implications of opting for IP Gas Pipeline?

Key Words: IP Gas pipeline, energy security, energy requirement, US and UN Sanctions against Iran,

Historical Background

The IP Gas Pipeline project has been under discussion between Iran and Pakistan since 1994. Iran signed a preliminary agreement with Pakistan in 1995. Later on, Iran suggested to extend the pipeline from Pakistan into India and signed in February 1999 a preliminary agreement with India as well. The

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project was termed as Iran-Pakistan-India (IPI) Gas Pipeline and many experts described it as a Peace and Prosperity Gas Pipeline. Pakistan, India and Iran held several meetings and agreed on price and other related issues.

In April 2008, Iran expressed interest in the People's Republic of China's participation in the project. In August 2010, Iran invited Bangladesh to join the project (Kabir, 2010). In 2008, India signed a nuclear deal with US and next year it withdrew from the project on the pretext of over pricing and security issues (Haider, 2010). However, in March 2010, India called on Pakistan and Iran for trilateral talks to be held in May 2010 in Tehran. In January 2010, the United States asked Pakistan to abandon the pipeline project. If cancelling the project, Pakistan would receive assistance from the United States for construction of a liquefied natural gas terminal and importing electricity from Tajikistan through Afghanistan's Wakhan Corridor (Farshadgohar, 2013).

However, Pakistan and Iran signed a final agreement on IP Gas Pipeline at a meeting held in Ankara on 16 March 2010. As per agreement each country was to lay its section of pipeline by the end of 2014 (Anwar, 2012). Government of Pakistan approved IP project deal with Iran on 30th January 2013. According to the bilateral agreement, if Islamabad does not complete its part of the project by end of 2014, it would have to pay a daily penalty of one million dollars to Iran until its completion (*The Nation*, 13th March 2013). In July 2011, Iran announced that it has completed construction of its section (Javaid, 2011). On 13th March 2012, Pakistan's ministry of finance announced that private investors were not showing enough interest and that the government might have to impose a tax on consumers, or seek government-to-government arrangements with Iran, China and Russia to build the pipeline (Farshadgohar, 2013).

The work on laying Pakistani section of the project was officially launched by the Presidents of both Pakistan and Iran on 11th March 2013. There is no doubt that Pakistan and Iran are committed to this project and have rejected US pressure not to undertake this project. It has been decided that Tadbir, the Iranian Company will construct the pipeline at the cost of Rs.190 million per km and will lay 2 km pipeline per day inside Pakistan. Iran has already completed the construction of pipeline in its territory. The laying of 781 km of gas pipeline with 42 inches diameter from Gabd (a point at Pak-Iran border) to Nawabshah will be completed in fifteen months (IPRI Conference, 18th April 2013).

On 1st May 2012, it was reported that Pakistan's foreign minister, had said that Islamabad will not bow to US pressures because the project was in line with

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the country's national interest. After the signing ceremony of the sovereign guarantee agreement, Pakistan's Minister for Petroleum and Natural Resources said that the Gas Sale and Purchase Agreement between Pakistan and Iran was for the import of 750 million cubic feet daily (mcf) of natural gas with a provision to increase it to one billion cubic feet per day. It was hoped that the gas would be available to Pakistan by the end of 2014. It was expected that the supply of gas would last for 25 years from Iran's South Pars gas fields in the Persian Gulf. The gas would be supplies to Sui Southern Gas Company's transmission and distribution network in Pakistan. The total cost of the project for laying down 781 km Pakistani section of the pipeline was US\$ 1.5 billion out of which Iran agreed to provide US \$ 500 million as loan.

Pakistan's Quest for Energy Security

Energy on one hand is used for the industrial and agricultural purposes and on the other it is required for domestic use. Natural gas is the fastest growing primary energy source globally. Consumption of natural gas is projected to increase by nearly 70 percent between 2002 and 2025, with the most vigorous growth in demand expected among the emerging economies. Consumption of natural gas worldwide would increase in the forecast by an average of 2.3 percent annually from 2002 to 2025, compared with projected annual growth rates of 1.9 percent for oil consumption and 2.0 percent for coal consumption. The electric power sector accounts for almost one-half of the total incremental growth in worldwide natural gas demand over the forecast period. South Asia is important to world energy markets because it contains 1.3 billion people and is experiencing rapid energy demand growth. After India, Pakistan and Bangladesh are the next largest South Asian countries in these categories (Munir, 2006).

Economic and population growth in South Asia have resulted in rapid increase in energy consumption in recent years. The major energy issues facing South Asian nations today are keeping up with rapidly rising energy demand. Energy consumption in South Asian countries has doubled in 2010 as compared to the energy consumption in 2006. Pakistan's largest energy source is natural gas, with demand and imports growing rapidly. Currently, natural gas supplies meet 49 percent of Pakistan's energy needs. According to an oil and gas journal), as of 1st January 2005, Pakistan had 26.9 trillion cubic feet (tcf) of proven natural gas reserves. Pakistan is looking to increase its gas production to support increasing consumption through pipelines from Iran and Turkmenistan (*Natural Gas*, 2006).

After Brazil and Argentina, Pakistan ranks third in the world for use of natural gas as a motor fuel. In addition, Pakistan hopes to make gas the fuel of choice

for future electric power generation projects. Pakistan ambitiously seeks to increase oil production through new alliances with foreign companies. Pakistan's net oil imports are projected to rise substantially in coming years as demand growth outpaces increase in production (*Pakistan Energy*, 2006). The country has been facing power shortages since 2007 and the energy managers have failed in tackling the issue. It reflects that there is an urgent need to take some corrective measures for increasing energy generation, conservation of energy and reducing transmission losses. Pakistan has 18 Giga Watts (GW) of electric generating capacity. Thermal plants using oil, natural gas, and coal account for about 70 percent of this capacity, with hydroelectricity (hydro) making up 28 percent and nuclear 2.5 percent. Although Pakistan's total power generating capacity has increased rapidly in recent years, this capacity could not be actualized (*Pakistan Energy*, 2006).

In these circumstances, Pakistan is actively seeking a multitude of diverse sources to meet its rapidly growing energy requirements, including import of Liquefied Natural Gas (LNG) and Liquid Petroleum Gas (LPG), the TAPI (Turkmenistan, Afghanistan, Pakistan and India) project, and import of electricity from Central Asia and possibly from India, and greater exploitation of indigenous hydel, natural gas and coal resources. The IP gas pipeline is thus one, albeit important, component of Pakistan's overall energy requirement mix. Pakistan has earmarked the potential gas supply from the IP pipeline exclusively for generation of approximately 4,000 megawatts (MW) of electricity. Currently, the country is facing a power shortfall of approximately 5,000-6,000 MW, which peaked last year at around 7,000 MW. Under the prevailing situation, it appears that the gas from Iran via the IP pipeline can be helpful in clearing the existing power shortfall. Similarly, it can do so at a significantly reduced generation cost from the current fuel mix which is skewed towards furnace oil and diesel.

It is also argued that the direct economic cost to Pakistan emanating from the energy crisis amounts annually to around three to four percent of GDP. The direct cost is mainly in the form of lost output / GDP. However, the broader macroeconomic collateral costs are substantial too, and include a decline in employment levels, lower incomes, lower government revenue, a decline in export orders, drastically lower fixed investment levels, and greater fragility of the banking system (Sherani, 2013). In addition, the persistent energy shortfall has burdened public finances through the provision of heavy subsidies via the budget, amounting cumulatively in the past five years to approximately Rs 1.5 trillion, leading to a diversion of budgetary resources from development projects, and to a rapid build-up of public debt. The build-up and persistence of the inter-enterprise circular debt in the energy sector has sapped the

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financial strength of energy companies, severely curtailed their operations and profitability, and drastically reduced new investment in upstream exploration and production activities, and in downstream projects such as installation of new generation capacity. Another important motivation for Pakistan to actively pursue the IP gas pipeline could include a strategic diversification of its energy sources (Sherani, 2013).

Far past few years, Pakistan is facing a serious energy crisis, but unfortunately no worthwhile steps have been taken to install new capacity for generation of the required energy sources. Now, when the demand has exceeded the supply – ‘load-shedding’ is a common phenomenon through frequent power shutdowns. In order to meet its energy requirement, there are various options which Pakistan may consider.

- *Option One: IP Gas Pipeline:* Iran has the 2nd largest gas reserves in the world after Russia. It is a contiguous country with long common borders with Pakistan. Both countries have long-standing commitment on IP gas pipeline. Furthermore, Pakistan has moved closer to build the gas pipeline to import Iranian gas to meet its energy needs. It has taken nearly two decades to reach at this stage which was not an easy journey. Pakistan has faced external pressures and internal dissent over connecting its industry and households to the Iranian gas fields (Rais, 2013).
- *Option Two: TAPI Gas Pipeline:* Turkmenistan has the third largest gas reserves in the world supplying large volumes to Russia and since 2011 to China by interstate gas pipelines. It is the shortest pipeline of 1450 km that Pakistan may have. About 650 km of the pipeline would be through Afghanistan. TAPI was indeed a good project which would definitely help in building stronger South Asia. With the launch of this project, all the countries involved, especially Pakistan and India, will gain economic benefits, and eventually political stability will be achieved and this will improve the security in Afghanistan. There are several geopolitical impediments such as security of pipeline in Afghanistan and concerns of Russia. At least 15000 to 18000 security personnel would be needed to provide security to TAP.
- *Option Three: Qatar-Pakistan Undersea Pipeline/Import of LNG from Qatar:* Qatar has a 4th largest gas reserves with largest LNG export capacity. The Qatar gas pipeline to Pakistan through Iranian waters or overland Iran may create interstate rivalry.

Therefore, instead of pipeline, import of LNG from Qatar is more suitable option.

- *Option Four: Energy Cooperation with China:* The fourth option is an agreement Pakistan concluded with China in January 2013, under which China intends to build two additional nuclear reactors at Chashma. But, this option could not solve Pakistan's energy crisis. However, Chinese assistance in coal and other energy production sectors could be more helpful.
- *Option Five: Energy Cooperation with USA:* The fifth alternative course for Pakistan to tackle its energy problem is the American offer to provide \$4 billion in the next four years to help the country expand the power generation capacity of its existing dams such as Tarbela and support the building of more small and medium size dams or water reservoirs (Ahmed, 2013)

The US is opposed to IP project and has been pursuing Pakistan to abandon the project by offering alternate energy route, e.g., TAPI in 2010. In addition to TAPI, Obama Administration offered assistance to Pakistan for a Liquefied Natural Gas (LNG) terminal along with providing the electricity from Tajikistan through Wakhan corridor. USA has repeatedly warned Pakistan that if IP Gas pipeline deal was finalized then it would raise serious concerns under the Iran Sanctions Act. Pakistan has so far resisted the US pressure and expects that the US will exempt it from sanctions as it has already done for China and India. Iran is India's second major oil supplier after Saudi Arabia while it is China's third largest supplier of crude oil after Saudi Arabia and Angola.

IP Gas Pipeline: A Viable Option?

Out of all the above options IP Gas Pipeline appears to be the most viable and cheapest option. In his article entitled: 'Not a Pipedream', Raise (2013) has described this project as the most suitable option. He argues that:

This pipeline, in a very short time frame of about 15 months, can ease pressure on Pakistan's energy shortages and substitute the use of expensive furnace oil for power generation. A gas flow of 21.5 million cubic meters daily will have multiple positive gains for Pakistan's economy. Secondly, we have not sufficiently realised the benefits of regional trade, investments and economic connectivity. Our

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markets for whatever we produce are in distant places . . . through the framework of regional organisations and at a bilateral level, we need to move towards Iran, India and Afghanistan and through Afghanistan to Central Asia. This is the region that is going to be the hub of economic growth and prosperity for the next half century. We shouldn't miss any opportunity that opens up for us. Bringing in China in our infrastructural projects and building of the gas pipeline are steps in the right direction for a future full of positive gains.

Most Pakistani political leaders have voiced their opinions as pro-IP pipeline, and feel that Pakistan should look into its own national interests and not to bow to US pressure. The former governor of Balochistan, Nawab Zulfiqar Ali Magsi, openly spoke out against the pressure from the West and expressed his interest in the pipeline which will be constructed in the Balochistan province. The Baloch people are hoping that the pipeline will bring economic prosperity and stability in the region. If Pakistan continues to go ahead with the deal, it will improve its bilateral ties with Iran. Enhancing economic ties will help the two countries to overcome their differences over the Balochistan province, the situation in Afghanistan and the sectarian issue of Shias and Sunnis. It will also help develop a relationship of mutual trust fostered by a common goal (Khan, 2013).

Geo-Economic and Geo-Political Implications

There are several benefits that IP Gas Pipeline may bring for Pakistan. The detail of some of these benefits is as under.

- The IP gas pipeline is an important, component of Pakistan's overall energy requirement mix. It will help Pakistan to overcome its energy crisis by filling the gap between supply and demand. It will not only help minimize natural gas shortage of 1,000 to 1,500 mcf/d but will also meet the shortage of 5000 to 6000 MW electricity.
- In total, the IP would cost around \$3 billion to Pakistan but it would reduce oil imports by \$5.3 billion, and help buy oil for another \$2.3 billion, thus saved.
- It will help to preserve declining indigenous gas reserves of Pakistan which are expected to deplete by 2020.

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- If Pakistan did not opt for pipeline projects then it would have to face even more serious consequences than the ones US was likely to impose on Pakistan in case of doing gas project with Iran.
- The imported gas from Iran will help replace the costly furnace oil being used as fuel in power houses in Pakistan that will help to save one billion dollars per annum. There is a clause in the agreement that if Pakistan arranges import of gas from other states at lower price than Iran will also do that accordingly.
- The project will provide job opportunities in Balochistan and Sindh.
- Pakistan can earn transit fee if the pipeline is extended to third country, i.e., India and China.
- Gas supply to power sector has been diminishing. Power sector would be key beneficiary from IP Gas pipeline.
- Starting of this project with Iran will also open new avenues for cooperation. Iran has proposed that an electricity transmission network can be built next to pipeline, connecting electricity grid of Iran with that of Pakistan, India and China and offered to sell electricity at a subsidised rate. Iran with the cooperation of Pakistan's State Oil (PSO) will also invest four billion dollars to build an oil refinery at Gwadar Port having refining capacity of 400,000 barrels of oil per day (Stratrisk, 2013).
- The Iran-Pakistan gas pipeline deal would have provided 21.5 million cubic meters of natural gas for Pakistan on a daily basis, starting in late 2014. The pipeline could eventually be extended to India, which was also a partner in the deal before. In such eventuality, not only Pakistan but also economically growing and energy-starved India will benefit, and, consequently, India-Pakistan peace will flourish and the whole of South Asia will see the sort of stability the United States and the rest of the international community aspires for the region.
- Keeping in view that excess gas of 350 mcf/d may be available after fulfilling needs of power sector, the fertilizers and captive power units in textiles and chemicals likely to be the key beneficiaries. While the government has already committed gas to fertilizer plants on SNGPL network, it is believed that a share of the excess

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can be diverted to FFBL urea plant which is currently operating at 50 percent capacity.

- Sectarian Bridge-One critical aspect of the Iran-Pakistan pipeline is the simple fact that it will bring sectarian harmony in Pakistan.

Challenges for IP Gas Pipeline

No doubt, there are a large number of benefits of this project - there are also challenges ahead. The major challenges that Pakistan may face are as under.

US Sanctions on Iran and Implication for IP

First and most formidable challenge is countering US pressure that may lead to economic sanctions in extreme scenario. Presently, Iran is under three types of international sanctions regarding its pursuit of nuclear activities. One set of sanctions is UN sponsored sanctions and the other set is US backed sanctions which have full support from European Union as well. Apart from complying with US sanctions, EU itself has imposed sanctions on Iran. UN sanctions on Iran have been imposed through four binding Security Council Resolutions. These include: Resolution 1737 (2006), 1747 (2007), 1803 (2008), and 1929(2010) (Sherani, 2013). These sanctions include a ban on the supply of heavy weaponry and nuclear related technology to Iran, a block on Iranian arms exports, and an asset freeze on key individuals and companies and an asset freeze on key companies (BBC News, 22nd April, 2013).

European Union has also banned the trade in sensitive material that could be used for uranium enrichment. In 2011, EU also banned the export of technology and equipment for refining and production of natural gas. EU introduced new package of sanctions against Iran in July 2012 and later on in October 2012. EU banned the import, transport and purchase of Iranian crude oil, at that time 27 EU member states accounted for 20 percent of Iran's oil exports (BBC News, 22nd April 2013). In October 2012, EU sanctions prohibited transactions with Iranian financial institutions and banks except those for humanitarian purposes. Import, transport and purchase of Iranian natural gas were also banned.

As far as US sanctions on Iran are concerned, Iran has been under various categories of sanctions by the United States since 1979. Sometimes sanctions were imposed due to poor human rights record and sometimes due to alleged involvement in terrorist activities. In 1995, President Clinton imposed oil and trade sanctions that were strengthened further when he announced penalties

against any firm investing US\$40 million or more per year in energy sector particularly oil and gas projects (Khan, 2012).

Since 2002, with the publishing of satellite images of nuclear plants in Iran has given rise to suspicions about the nature of nuclear programme of Iran. In 2007, the new sanctions targeted the three state owned banks and the finances of Iran's Islamic Revolution Guards Corps for their involvement in nuclear and ballistic missile programme (Khan, 2013). Later on, in July 2008, engineering and construction companies also came under sanctions. Then in 2009-2010, Pakistan was warned by Richard Holbrooke, about the upcoming sanctions on Iran and in case Pakistan joins pipeline project it may also be affected.

At present, United States sanctions on Iran are apparently because of its nuclear programme. Iran Sanctions Act deals with energy related sanctions imposed on Iran. It is basically Extra Territorial Act' that enables US to control and impose penalties on foreign firms and multinational corporations most of them are incorporated in US allies states. Most importantly these sanctions also affect Iran's military transactions, trade and investment, and banking sector (Sheikh, 2013). To increase international compliance with US sanctions, President Barak Obama issued an executive order on 1st May 2012, which authorised the Treasury Department to identify and sanction foreign companies who help Iran and Syria to evade the US multilateral sanctions. European Union is also following the suit.

Despite US alarming statements regarding this project, Pakistani government has continued with this project but there are serious concerns about the sanctions that it might become applicable on IP Gas Pipeline project. It is the fear of sanctions that Russian Gazprom, the largest extractor of natural gas in the world, and Industrial and Commercial Bank of China also pulled out of the pipeline project (Sheikh, 2013). Pakistan's Oil and Gas Development Company Limited (OGDCL) and National Bank of Pakistan have also refused to finance the IP project due to fear of sanctions. In the meantime, while trying to discourage Pakistan to pursue the project, United States offered Pakistan alternate TAPI pipeline project that is not going to be materialized in the near future due to precarious security situation in Afghanistan. The second option related to electricity import through Kyrgyzstan, Tajikistan, Afghanistan and Pakistan also seems a dream due to regional instability.

United States has granted exemptions to many states that are cooperating with Iran in the energy field. South Korea, Japan, South Africa, China and India are among these states that continue energy trade with Iran. Pakistan

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should ask for such waiver and if it is not granted to Pakistan then Pakistan should make use of its unique geostrategic position as United States needs Pakistan's support to withdraw its troops from Afghanistan. It is noteworthy that according to Foreign Office circles in Islamabad, while leaving behind the mounting US pressure, Pakistan appears to have calculated that its short-term energy needs are too great and the threat of American sanctions not strong enough for it to give up the deal. Thus, Pakistan has told the officials concerned in the Obama Administration in plain words that Islamabad would not abandon the project (Mir, 2013).

UN Sanctions

Iran is currently under three layers of international sanctions targeting its alleged pursuit of 'non-peaceful' nuclear activities - a unilateral sanctions regime imposed by the US in conjunction with the European Union, and a multilateral regime under the framework of the United Nations. The UN sanctions regime embargoes all dealings with Iran and designated Iranian entities that relate to 'proliferation-sensitive nuclear and ballistic missiles programmes.' UN sanctions on Iran have been imposed via four binding Security Council resolutions, namely: 1737 (2006), 1747 (2007), 1803 (2008) and 1929 (2010) (Sherani, 2013). UNSC Resolution 1929 does not bar Iran to pursue energy cooperation with the outside world. It specifically targets Iran's external pursuits to expand its nuclear and ballistic missile capability. Pakistan's official position is to abide by only the UN sanctions on Iran.

Security Situation in Balochistan

Third challenge IP Gas Pipeline may face is the security situation in Balochistan. The major portion of pipeline's length will be passing through Balochistan and thereby, if built, will face major security peril, particularly when insurgency in the province has intensified unabated. Do we have a sound political and security plan to take the Baloch nationalists on board? Historically, there is a tendency of sabotaging developmental projects if there is a perception that their economic interests have been overlooked.

Implication for Pakistan's Relations with Arab Countries

Another challenge which would need serious attention is what would be the impact of IP Gas Pipeline on Pakistan's cordial relations with Gulf countries? It is unclear whether oil-rich Arab countries would follow the US suit but it is known that many of them have strained relations with Iran. Pakistan relies on foreign assistance to the tune of over 2 to 3 billion dollars each year. There is a need to take some measures to overcome this political compulsion

(*Business Recorder*, 10th March, 2013). IP Gas pipeline is not an ordinary trade deal in energy but one of those projects that are likely to bring about a strategic shift in Pakistan's thinking on regional security issues from the Middle East to Afghanistan. There are fears that Pakistan will realign itself, from pro-West Arab states like Saudi Arabia to an Iran-Afghanistan-centred strategic outlook, the masters of the old strategic game, inside and outside, have placed Pakistani decision-makers under a lot of pressure (Rais, 2013).

Cost-benefit Analysis of the IP Gas Pipeline Project

There is no doubt that from economic and commercial point of view, IP Gas Pipeline is an excellent and viable option for Pakistan. However, if the project is analysed under the prevailing politico-strategic and security environment of Pakistan, there are some concerns that are equally important. The project will help net saving of estimated annual cost of fuel oil imports worth US\$ 2.3 billion besides generating 4000 MW of much sought after power for the country. The target of 4000 MW power generation, however, would call expansion in generating capacity both of the private and the public sector power companies (Khan, 2013).

Pakistan needs to carefully analyse the US' Iran Sanctions Act and its negative impacts on Pakistan especially the implementation process of Pakistan's Strategic Dialogue with the United States or the delivery of US\$ 7.5 billion US civilian assistance to the country on a five-year basis under the Kerry-Lugar-Berman Act. Another implication of the latest round of US and UN sanctions on Iran for the gas pipeline project was pertaining to the issue of securing international financing for its implementation. It seems that Pakistan has been succeeded in overcoming this challenge by securing funding from Iran and probably China. The US has suggested long-term alternatives to the IP pipeline and is assisting Pakistan with improving the performance of the sector as well as investing in the construction of some dams. In this context, it is relevant to note that no Western country from where the bulk of Pakistan's assistance emanates or any multilateral agency where US engagement remains significant, will extend any support in case the IP pipeline deal is finalised.

Recent Developments

In spite of several controversies attached to IP Gas Pipeline, both Iran and Pakistan are committed to the project. On 27th May 2013, Iranian Deputy Minister for Petroleum has conveyed to Pakistani government to start the Pakistani portion of the pipeline as per agreement. Although Pakistan is fully

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committed to the project but due to some uncertainties, it hasn't been able to officially select Tadbir Energy and local sub-contractors to complete the Pakistani portion of the pipeline. There were apprehensions in some circles that the present government of Nawaz Sharif might abandoned the IP Gas Pipeline but surprisingly on 12th June 2013, the Prime Minister dispelled these fears announcing that his government was committed to the fulfilment of the project.

On 2nd August 2013, during the weekly briefing, the Foreign Office spokesperson stated that Pakistan had presented a 'non-paper' over the project to the US delegation during the US Secretary of State John Kerry's two-day visit to Pakistan. He said that the rationale for giving the non-paper to the US was to convey Pakistan's perspective, with particular reference to whether or not this project would attract US sanctions. While explaining Pakistan's policy on the issue the spokesperson stated that Pakistan's energy requirements warranted it to explore all possible options, including the Iran-Pakistan pipeline project (*Express Tribune*, 2nd August 2013).

During December 2013, a high level Pakistani delegation visited Tehran to further discuss the project and reiterate Pakistan's assurance to fulfil its contractual obligation. The delegation held a meeting with Bijan Namdar Zangeneh, Iranian Minister of Petroleum on 10th November 2013, and assured him that project would continue despite external pressure. Pakistan's Foreign Office spokesman giving details of the meeting said, both the countries have also agreed to formulate a road map to address the challenges and to have effective coordination and cooperation on the project. It was also agreed that the experts of both sides would review parameters for accelerating work on the IP gas pipeline (*Dawn*, 10th December 2013).

According to a report appeared in *Express Tribune* on 25th November 2013, the nuclear deal between Iran and Western nations has apparently brought the multibillion-dollar Iran-Pakistan (IP) gas pipeline project back to life. This deal will also help Pakistan to import oil from Iran, which was suspended in 2010 after the US and European Union imposed sanctions on Tehran. Pakistan would now be able to import pipeline material and compressors required for its development. Officials claim that the country can now buy material at competitive rates as the Geneva deal has opened way to award the contract to any party. As there was no progress on the IP pipeline, Tehran was also unable to develop its South Pars field, the source of the gas supply for the project. But now, Iran will be able to develop the field by importing technology. Further, the agreement between Iran and the world powers would revive confidence of countries like China and Russia to finance the IP Gas Pipeline project (Bhutta, 25th November 2013). According to another news

report appeared in *Express Tribune* on 28th November 2013, a 'friendly' country of Pakistan anonymously offered one billion dollars to help fund the pipeline (Bhutta, 28th November 2013).

Review and Reflections

The above discussion reflects that in spite of various challenges, the IP Gas Pipeline is in the interest of Pakistan and there is a national consensus on this project. 'With 812 trillion cubic feet of natural gas reserves, Iran ranks second among countries in terms of reserves of natural gas development' (Farshadgohar, 2013). Therefore, both Pakistan and Iran are in a win-win position. The completion of this project will help resolve Pakistan's energy problems within next few years. A careful review of the overall situation of this project reflects that Pakistan should proceed strategically keeping all the relevant aspects into account. Based on the above analysis of the situation, we make following recommendations in this regard.

- Pakistan should continue pursuing IP gas pipeline being the more viable and cheapest option with several economic and geopolitical benefits for Pakistan such as meeting its energy needs and economic recovery.
- Gas Pipeline projects are in the national interest of Pakistan, therefore, political leadership should not compromise on these pipelines. Pakistan being a big gas market should utilise these opportunities for energy production. If Pakistan does not opt for IP Gas Pipeline project, then it would have even more serious consequences than the ones US is likely to impose on Pakistan in case of pursuing gas project with Iran.
- Pakistan should explore possibilities of extending IP and TAPI to other regional countries. Due to its crucial geo-strategic location, Pakistan can become an 'energy corridor' in the region if China, Bangladesh and India also join these pipelines. The possibility of extension of TAPI and IP to China and Bangladesh provide opportunities to Pakistan to get transit fee and turn its fragile economy into transit economy.
- A political will is required to materialise the ongoing energy projects which will contribute to the provision of cheaper inputs for industrial and agricultural sectors of this country.

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- There is a need to take US and Arab countries on board on IP Gas Pipeline. A particular attempt should be made to convince US Administration not oppose this project, mainly because looming energy crisis is adversely affecting Pakistan's economy and GDP growth. An economically strong Pakistan can help in maintaining peace and boosting economic activities in Afghanistan after the withdrawal of NATO forces.
- It is recommended that Pakistan's government should highlight to US that any adverse decision would intensify anti-US sentiments in Pakistan. Similarly, imposition of economic sanctions could lead to poor law and order situation which may cause disruption in withdrawal of NATO hardware through this county (Kazmi, 2013).
- The nuclear deal between Iran and the world powers provides an excellent opportunity to Pakistan and Iran to complete the IP Gas Pipeline by acquiring requisite funding and technology.

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