

# ABIBI of the Conventional Wisdom

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miles) in India, and the total investment is estimated at \$7 billion and may take four to five years to complete. Apart from the fact that the IPI pipeline makes good economic sense, particularly in promoting regional cooperation, it is immensely important to the on-going peace process between India and Pakistan. A number of observers of the India-Pakistan conflict have termed this project as the mother of all confidence-building measures between India and Pakistan and named it the Peace Pipeline.

The project has been dealt a major jolt by the news that New Delhi and Islamabad have rejected the draft final agreement circulated by Iran, which calls for a three-year review cycle on the gas price. Causing yet another delay in the trilateral deal, the pricing dispute will either be resolved by a new round of negotiations or turn into an unbridgeable difference putting the IPI's fate under question marks. Prior to his resignation in early August 2007, Iran's petroleum minister, Kazem Vaziri Hamaneh, had announced that the seventh round of negotiations for the IPI contract would be held in Tehran on July 29, 2007. It did not happen and, what is more, a former Iranian deputy oil minister, Hadi Nejad Hosseinian, has questioned the deal on the ground that it gives a huge discount to India and is some 30 percent below the value of gas sold to Turkey. Another Iranian politician, Akbar Mohtashemipour, from Iran's reformist side, has publicly questioned the wisdom of exporting Iran's gas at a time when the cold regions of Iran face gas shortages. The IPI issue has been moved to Iran's Foreign Ministry, and during the past year and a half, the Iranian negotiation team has changed three times.

Interestingly, the Asian Development Bank has assessed that the deal is feasible. Dan Millison, ADB's senior energy specialist, said that the ADB's assessment was based purely on economic grounds and the rising demand for energy from India and Pakistan.

## American Pressure

The U.S. position, however, is not linked to the economic side of the deal. It is driven by strategic politics, by Washington's Iran policy. The United States, which has had adversarial relations with Iran since the 1979 revolution, has been accusing Iran for some years of harboring nuclear-weapon ambitions. The U.S. has been trying to heighten the UN Security Council sanctions under Chapter VII of the UN Charter, and has voiced its opposition to the IPI pipeline as part of that strategy.

Last year, a senior U.S. state department official, Steven Mann, stated that the United States is unequivocally against the deal. "The U.S. government supports multiple pipelines from the Caspian region but remains absolutely opposed to pipelines involving Iran." Washington fears that the deal will be a blow to its efforts to isolate Iran. Since the deal involves Pakistan and India, two countries that are friendly with Washington, the Bush administration has been trying to pressure both to back off the deal.

India has come under greater pressure because New Delhi and Washington are steadily getting closer. The two sides have signed a deal which bestows on India's nuclear capability a legitimacy that has not come the way of any other state outside the Non-Proliferation Treaty. But part of the quid pro quo may be that India should get out of the Iran pipeline deal.

American strategic thinkers view India as an ally vis-à-vis China's rising power and China's and Iran's counter unipolarist perspective. The IPI is perceived as running against this broad strategic American perspective. In March 2005, U.S. secretary of state Condoleezza Rice told Indian NDTV: "Our views concerning Iran are very well known by this time, and we have communicated to the Indian government our concerns about gas pipeline cooperation between Iran and India." The U.S. has also made it clear to the leadership of India and Pakistan that the proposed project will result in U.S. sanctions under the Iran-Libya Sanctions Act.

In the beginning, both India and Pakistan declared their resolve to go ahead with the project. "This is between us, India is not a client state," Manmohan Singh, the Indian premier has reacted. However, New Delhi seems to have accommodated American pressures. A change in the Indian stance regarding the IPI pipeline has been visible lately. During his visit to United States, Manmohan Singh in 2005 made several statements to

illustrate this fact. “Only preliminary discussions have taken place (on the pipeline). We are terribly short of energy supply and we desperately need new sources of energy.”

This is not surprising. For the first time in its history, India has become a strategic partner with the U.S., something clearly indicated by the nuclear deal between the two countries, which trumps the existing nuclear non-proliferation norms. Yet the Indian government has expressed annoyance at the U.S. officials’ call for India to forgo expanded economic relations with Iran.

### Pricing the Deal

The euphoric expectation of a high-level signing ceremony of the agreement among Iran, India, and Pakistan this summer evaporated in a sense of frustration and even exasperation on the part of officials involved in the marathon negotiations stretching back to the mid-1990s. Unless all parties demonstrate due flexibility and sufficient foresight, the whole IPI is in danger of becoming a tissue of pipedream, irrespective of the tremendous progress made so far in removing the numerous hurdles—internal, regional, and international—facing this ambitious project.

Regarding Iran and its domestic situation, historically with the exception of the IGAT-I project, under which Iran exported natural gas (via pipeline) to the former Soviet Union in the 1970s, all other projects seeking to export gas from Iran have somehow fallen victim to political conflicts. At the time of the 1979 Revolution, Iran was exporting some 10 billion cubic meters of gas (all associated gases that otherwise would have been flared) to the southern region of the former Soviet Union. Export of natural gas to Pakistan and India was discussed before the 1979 Revolution. However, given the length of the required pipeline, the political uncertainty in Pakistan and the precarious nature of that country’s relations with India, and the stage of economic development in which these two countries were at the time, the project did not seem economically or politically feasible. With today’s high oil and gas prices and economic prosperity in India, it is much easier to finance such a project. But other obstacles loom.

From the vantage point of Iran, there is little substance to New Delhi’s criticism that it has unilaterally altered the terms of the 25-year gas agreement by its insistence on a periodic, i.e., three-year, review. According to various Iranian officials, including Mr. Nosratollah Seifi, an executive of the National Iranian Gas Export Company, from the outset of negotiation—in which India has favored a seven-year review cycle—Iran’s position has always been consistent, insisting on a shorter duration, one argument being the perpetual fluctuations of the energy market. Per their confidential agreement last January, the trilateral parties have agreed to adopt crude oil prices as the benchmark for determining the adjustments to the gas prices.

Part of the problem here is structural and is rooted in the volatility of a global gas market hampered by the absence of an OPEC-type pricing mechanism. With the occasional talks of a similar “gas OPEC” yet to yield any results, the life-cycle of

the IPI agreement will likely be shaped by the pull and push of negotiations among the three states.

Some experts believe that given the way the gas market works, the best option is an agreement on a price structure whereby all sides agree at a specific oil price as the benchmark and then on a slope. For IPI, the agreed price is \$4.93 per million BTU for Iran at the Pakistani border at JCC (average Japan crude cocktail price) of \$60 crude oil per barrel. Iran now sells gas to Turkey at almost \$8 per million BTU. Qatar’s contract for LNG with India has an escalator that will raise it to \$7.50 per million BTU at JCC of \$60, and India is buying 44 spot LNG cargoes during 2007 at average of \$9 per million BTU.

The gap between Iran on the one hand and India and Pakistan on the other is not insurmountable. The necessity of periodic review is irrefutable and the question is, really, about the appropriate review cycle. Both sides should consider the viability of a five-year cycle, which has the advantage of allowing sufficient time for periodic deliberations on the changing gas prices and yet avoids the frictions associated with too-quick a review that may put the project under the constant strains of negotiations and re-negotiations.

In addition, in light of the IPI’s potential contribution to regional development, complementing the North-South corridor under consideration by the member states of the Economic Cooperation Organization (ECO)<sup>1</sup>, it may be a good idea to revamp the IPI into a consortium, which opens the possibility of a future role by other regional parties, both in terms of investment as well as linkage with the regional gas network. For instance, Turkmenistan’s gas could also be exported to Pakistan and India through the IPI pipeline. In fact, by forming a consortium and allowing a potential role by other ECO countries—Iran and Pakistan are, together with Turkey, the founding members of this regional organization that now has ten member states and could induct India as an observer for the starter—the regional dimension of IPI becomes immediately more pronounced.

These recommended steps, if adopted, will not only ensure that IPI does not turn into a tissue of endless wrangling and materializes as envisioned, they also add to its significance and, simultaneously, reduce the potential impact of future shocks that may be political or geostrategic in nature. By increasing the pool of regional participants through a consortium, the IPI project glues the three countries into a greater web of cooperation and cements this cooperation by the positive input of other participants. As the experience of the BTC (Baku-Tblisi-Ceyhan) pipeline clearly demonstrates, regional pipelines contribute to the sustainable growth and stability of adjacent regions, and by all indications, the IPI should be no different.

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#### article footnotes

<sup>1</sup> Members are Pakistan, Azerbaijan, Afghanistan, Turkey, Iran, Uzbekistan, Tajikistan, Kazakhstan, Kyrgyz Republic, and Turkmenistan.



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# Audit of the Conventional Wisdom

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## Iran-Pakistan-India Pipeline: Is it a Peace Pipeline?

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A major natural gas pipeline that would stretch from the fields of southern Iran to Pakistan and India—itsself a remarkable prospect—is being planned. But it faces serious hurdles, not least the fierce opposition of the U.S. government.

The history of relations between Persia and the Indian subcontinent is more than 2000 years old. Until 200 years ago, Persian was the language of literature and government in India. After separation of Pakistan from India, Iran faced a dilemma of its relations with these two new states. During the Shah's era, Iran preferred to have close relations with Pakistan, although economic ties with India were not ignored. After the collapse of the Soviet Union and Pakistan's support of hardliners in Afghanistan, Iran found India as a new partner in Asia. India has been slowly but surely forging a comprehensive relationship with Iran on energy and commerce, infrastructure development, and military ties. Iran looks to India as a developed, democratic, and politically lucrative country for cooperation. For instance, some 8,000 Iranian students are studying in India, compared with 2,000 in the United States.

A big market for India, Iran has the world's second largest oil and gas proven reserves, and acts as an important access route for India to Central Asia and Afghanistan. Case in point: India is seeking new routes to reach to Central Asia. One of them is the North-South Corridor, which links India to Russia and all of the former Soviet Union via the Persian Gulf, Iran and Caspian Sea. Iran's considerations are boosting trade, having secure borders, and avoiding "encirclement" by American proxies. At the same time, Iran is opposed to the hegemonic presence of the United States and its troops in the Indian Ocean. India has not been hesitant to play the Iran card to draw concessions from the United States on other matters of bilateral concern. So the pipeline is freighted with more significance than merely the delivery of natural gas.

### The Scope of the Proposal

The Iran-Pakistan-India Pipeline (IPI) would run totally 2,670 km (1,660 miles), about 1,115 km (690 miles) in Iran, 705 km (440 miles) in Pakistan and 850 km (530