Pakistan - Iran: a Betrayal of National Interests or a Cold Calculation on the part of Navaz Sharif?

The lifting of sanctions from Iran was the latest challenge for the Prime Minister of Pakistan, Navaz Sharif, after the signing by Tehran on July 14, 2015 of the nuclear deal by the P5+1 countries. In these conditions, Pakistan was finally forced to make a final decision about the gas issue. Which project will Islamabad give preference to: the Iran-Pakistan (IP) Gas Pipeline or the Turkmenistan-Afghanistan-Pakistan-India (TAPI) Pipeline?

Pakistan welcomed the lifting of political and economic barriers against Iran and expressed its confidence that after the sanctions are removed, Iran will once again be integrated into the regional and global economic markets.

According to the Ministry of Foreign Affairs, Islamabad is tying the commencement of the Iran-Pakistan Gas Pipeline's construction in with plans to reinforce their own energy security. The chronic deficit of gas in the country is one of the main reasons for the low economic growth rate. A day after the signing of the deal in Vienna, Pakistan's Minister of Petroleum & Natural Resources Shahid Khaqan Abbasi confirmed that gas supplies from Iran will be possible within the next two years.

The 1,800 km-long project was first talked about as far back as 1955; negotiations then gained pace in the early 1990s; a feasibility study put the cost of the project at 1.25 billion dollars.

Pakistan has officially announced the start of the gas pipeline's construction several times over the last few years but owing to a number of reasons, the project has thus far failed to materialise. Technical documentation was updated, the tariff policy was reviewed. The political administrations of Islamabad replaced each other, their position changed, but each one declared there would be an energy "breakthrough" in relations with Tehran.

At the peak of international sanctions against Iran, on March 11, 2013, as part of its program of restructuring its energy sector, Islamabad signed an agreement with Tehran about the construction of a gas pipeline on its territory. The then Foreign Affairs Minster of Pakistan, Hina Rabbani Khar, announced that "US sanctions against Iran were connected to oil resources, not gas. Therefore, these sanctions do not hinder the gas pipeline project..."

"Pakistan will import 21.5 million cubic metres of Iranian natural gas on a daily basis," declared the then President, Asif Ali Zardari. Pakistan's leader made an official visit to Iran to attend a ceremony marking the laying of the first stone in the project's foundation in the Iranian town of Chabahar, at the Gabd border crossing which is the central point between the two states. The terms of the agreement foresee 20 years of work with a possible future 5-year prolongation. Iranian gas was planned to produce a 4,000 Megawatt yield of electrical energy for use by the internal market of Pakistan. According to the Ministry of Petroleum & Natural Resources, "the completion of construction and the commencement of operation of the gas pipeline will facilitate a rise of up to 5% in Pakistan's GDP." In 2013, the Iranian part of the gas pipeline had practically been finished.
The flow of crude hydrocarbons was to be conducted from South Pars gas field, piped onwards along the gas distribution system through Iranian territory to the crossing point on the Iranian-Pakistani border, then the 781 km flow would continue into Pakistani territory through the Western Province of Balochistan into the Sindh Province to the town of Nawabshah to the North of the metropolitan city and seaport Karachi. The cost of constructing the Pakistani part of the gas pipeline was estimated at 1.5 billion dollars, which proved unaffordable for Islamabad. Tehran provided one of the loans (500 million dollars) in 2013, which Islamabad was obliged to repay after the gas pipeline would begin operations.

In 2013, Washington strongly opposed the planned deal to buy liquefied gas from Iran, threatened Pakistan with economic sanctions, offered gas supplies from the USA and simultaneously supported the TAPI project.

In May 2013, the Pakistan Muslim League (N) (PML N) came to power with the Prime Minister Mian Muhammad Nawaz Sharif (a long time political opponent of the Bhutto Zardari clan). Under pressure, mainly from the USA and Saudi Arabia, N. Sharif took a "keep silent" position on the gas pipeline project, despite the strict fixed penalties outlined in the agreement (3 million dollars a day in case of a breach of contract.) The country's opposition took the reversal of the foreign policy regarding Iran as submission to Washington and as a crippling blow to the country's energy security.

Trade between the two countries started to dramatically decline in 2013. Until the UN introduced sanctions against Iran in 2012, the volume of bilateral trade between Islamabad and Tehran had reached 2 billion dollars, by mid-2015 it had decreased to 300 million dollars.

In May 2014, Prime Minister N. Sharif asserted his official visit to Tehran would mark a new era in bilateral relations. In fact, the Cabinet Head inquired about another postponement in the construction of the pipeline and requested that the regime's financial penalties be dropped. Tehran once again met them halfway.

Pakistan, taking advantage of its neighbour's loyalty, put together another package of "requests" as part of their updated negotiation process, of which one of the priorities remained the reviewing of the gas tariffs. "In accordance with the contractual clause, the gas tariff can be reviewed a second time once a year before the recommencement of gas supplies. Thus we are determined," announced the Federal Minister of Petroleum and Natural Resources, S. Abbasi, "to discuss the contractual clause about the gas tariff again."

The Iran-Pakistan Gas Pipeline also has a Chinese component. The Pakistani part of the project is connected to the China-Pakistan Economic Corridor. Beijing is currently financing the construction of the gas pipeline from Nawabshah (Sindh Province) to the deep-sea-port of Gwadar, not far from the Iranian border. As soon as this part is built, Pakistan should build a further 80km of pipeline to connect it with Iran's gas distribution system. In turn, the gas flow from Nawabshah is to be extended to the Northern border with China.

Prime Minister Nawaz Sharif completed a Central-Asian tour in May 2015. Alongside a large number of memorandums of mutual collaboration, talks were held about the most important thing - energy sources. In August, diplomatic-level negotiations between the Ministries of Oil and Gas took place in Ashgabat.

Four countries (Turkmenistan, Afghanistan, Pakistan and India) decided to resume work on the project and announce their joint-ownership of the project. The State Company of Turkmenistan, TurkmenGaz looks set to become the main investor, as it is already the consortium leader of TAPI.

The 1,800 km of pipeline, currently under construction, is to be put into operation in 2018 for a 30-year period, with a capacity to carry 90 million standard cubic metres per day. TAPI will transport natural gas from Turkmenistan's Galkynysh Gas Field, more famously known as the South Yolotan-Osman Field. The pipeline will then continue through Afghanistan's Herat and Kandahar Provinces, cross the Afghanistan Pakistan border, onwards to Quetta, then through inland areas to Multan, cross the border again and travel onwards to the Indian town of Fazilka in the Punjab Region.

However, let's go back to Iran. After the sanctions are lifted, Tehran will not only reinstate the export of crude oil and get access to its assets in foreign banks, but it will rebuild its partnerships with the region's countries afresh. President Hassan Rouhani approached Indian Prime Minister, N. Modi, requesting an investment of 8 billion dollars in infrastructure projects and most importantly, in the strategic development of the port of Chabahar. New Delhi has long set its sights on the port with the aim of circumventing its main competitor (Pakistan) and opening a sea-land access route to Afghanistan.

The Iranian-Indian project in Chabahar on the Gulf of Oman near the Pakistani border will be a serious competition
to the Pakistani-Chinese project in Gwadar (Strait of Hormuz), which will define the hydrocarbon and trade policies of the region.

On Prime minister Nawaz Sharif’s political decision – which project he will give preference to – IP or TAPI – hinges not only Pakistan’s energy security, but also his fate as a politician (after all, he had sworn under oath to solve the country’s energy problems) and also Islamabad's general foreign policy direction in the near future.

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