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Saudi grant kills Iran-Pakistan pipeline

By Syed Fazl-e-Haider

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A US\$1.5 billion donation to Pakistan from Saudi Arabia is hotly being debated in the country's parliament, political circles and among the analysts. The main question being under what deal Riyadh disbursed the crucial amount to help the cash-strapped country make short-term economic gains? What has Pakistan guaranteed or promised to do in return? Many believe Saudi Arabia killed many birds with one stone.

Saudi Arabia did what the US could not do to keep Pakistan away from a \$7.5-billion gas pipeline project with Iran. In a tit-for-tat deal, Saudi Arabia might have persuaded Islamabad to cancel the Iran-Pakistan (IP) pipeline project, which is vital to end energy shortages that are crippling Pakistan's economy.

Pakistan's oil minister Shahid Khaqan Abbasi, after receiving funds from Saudi Arabia last month, reportedly said work on the pipeline was not possible because of sanctions imposed by the United States and the European Union on Iran over its nuclear program. Iran has warned that Islamabad is contractually obliged to complete the project which would allow Tehran to export gas to its southeastern neighbor.

"Iran has carried out its commitments ... and expects the Pakistani side to honor its own," Iran's

deputy oil minister Ali Majedi was reported to have said. "They should even pick up the pace of work and make up for falling behind schedule in constructing Pakistan's [780-kilometer] side of the pipeline."

Iran has already laid the pipeline its side up to its border with Pakistan. Financing has been the key issue for Islamabad. Islamabad has so far failed to secure the required funding for the IP pipeline due to the threat of sanctions from the US. Pakistan had been asking Iran, China and Russia to fill the finance gap.

Ironically, Saudi Arabia's \$1.5 billion donation was the amount Pakistan needed complete the portion of pipeline on its territory. But this donation, or "gift" as called by Ishaq Dar, Pakistan's finance minister, could not be used to finance the construction of the IP pipeline.

The Saudi grant has, however, helped Pakistan to shore up its foreign exchange reserves. It improved the health of the Pakistani rupee, which appreciated 6% to a nine-month high against the US dollar within a week.

Iran and Saudi Arabia have a history of mistrust, posing a serious challenge for Pakistan to maintain a delicate balance in its bilateral relations with both countries. Pakistan Prime Minister Nawaz Sharif has preferred friendship with Saudi Arabia over Iran. He enjoys good and close relations with the Saudi royal family.

Last year, former president Asif Ali Zardari inaugurated the delayed IP pipeline on March 11. The administration of Yousaf Raza Gilani downplayed the US pressure and continued to go ahead with the Iran pipeline project.

In 2012, Saudi Arabia had offered energy-deficient Pakistan the alternative options to cope with the energy crisis in a move to lull the country to abandon the IP gas pipeline project . A "special message" about the project from the Saudi king was delivered to Pakistan by Prince Abdul Aziz bin Abdullah, the Saudi deputy foreign minister, in his one-to-one meeting with former prime minister Gilani in Islamabad. The Saudi message came at a time when Pakistan had expedited its efforts to strike government-to-government deals on financing its portion of pipeline with Moscow and Beijing, despite stiff opposition from the US.

The "timing" of the launch of the pipeline project, which was scheduled to be completed by the end of this year when the US is scheduled to withdraw its forces from Afghanistan, is a crucial consideration for Islamabad. Washington direly needs Islamabad's support and cooperation in the run up to Afghan war endgame, and represents a window of opportunity to complete the pipeline project at a time the US would not be in a position to significantly hurt Pakistan's interest. Geopolitically, a major foreign policy challenge for the US was to convince Islamabad to abandon the pipeline without undermining its own interests in Afghanistan.

The fate of IP pipeline is now uncertain after Pakistan has showed its reluctance to go ahead with the project. The pipeline, which would initially transfer 30 million cubic meters of gas per day, could bail the country out of the acute energy crisis. Under pipeline contract, Pakistan has to pay a penalty of \$3 million per day if fails to implement it by December 2014. Pakistan may face

arbitration by Iran but believes that it is qualified for a waiver because the IP gas deal with Iran was signed before Western sanctions were imposed on Iran.

Geopolitics, corporate interests and other shenanigans have produced twists and turns in the pipeline project. It has been strongly opposed by the US, while Russia and China have supported it. India withdrew from the project in 2009 after signing a civil nuclear deal with the US. Even as it negotiates a nuclear deal with Iran, Washington has not so far exempted the project from the sanctions. Islamabad took up the issue with US authorities at a meeting on the sidelines of the revised bilateral strategic dialogue in Washington last year. The US however was not convinced.

Iran in December not only canceled a \$500 million loan promised in 2012 with Pakistan for building the section of a pipeline to bring natural gas from Iran, but it also announced that it will demand compensation if Islamabad fails to build the pipeline by end of this year. Iran took a u-turn on the pipeline following the interim nuclear deal with Western powers last year. The u-turn turned the project, once considered an "energy lifeline" for Pakistan's economy, into a liability. The latest turn, courtesy of the recent \$1.5 billion donation from the Saudi Arabia, looks likely to kill the strategically significant project.