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Pak-Iran Pipeline Carries Energy and Defiance

Richard Javad Heydarian

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After almost two decades of non-stop negotiations, and two years of intense U.S. opposition, the much-delayed and controversial 7.5 billion dollar Iran-Pakistan pipeline is well on its track to full operation in the next 15 months.

In a telling sign of Pakistan's growing energy woes, Pakistan President Asif Ali Zardari chose to ignore vigorous external opposition and visit Iran (Feb. 27) in order to finalise a fateful energy deal which could potentially elevate Iran-Pakistan relations into a strategic partnership. Zardari and Iran President Mahmoud Ahmadinejad inaugurated the pipeline on Monday this week.

Once completed, the gigantic 1,881 kilometre pipeline is set to carry 21.5 million cubic metres of natural gas per day (mid-2015) from Iran's Assalouyeh Energy Zone in the south, stretching over 1,100 km through the country, to the Iran-Pakistan border (Gabd-zero point). Then it will pass through Balochistan and Sindh within Pakistan, from where it would be connected to an existing gas transmission network. Iran has almost completed its side of the pipeline, but Pakistan has been searching for sufficient funds to build its side of the bargain.

After meeting Iran's top leaders in Tehran, Zardari was able to seal a final agreement to complete the 1.5 billion dollar pipeline project on the Pakistani side. According to the deal, Iran will provide as much as 500 million dollars in soft loans, with an Iran-Pakistan consortium, Iran's Tadbir Energy and Pakistan's Interstate Gas Company, to undertake the pipeline construction inside Pakistani soil. The pipeline is due to assume full operation by December 2014, based on an earlier gas sales and purchase agreement.

“The two countries have mutual trust and consolidated relations today despite the will of all those who intend to ruin Tehran-Islamabad relations and impede our path of cooperation,” Pakistan’s president said after signing the final agreement with Tehran. “I believe that building this project is very beneficial for both sides and we support all the work carried out so far.”

“Iran and Pakistan have and will stand beside each other with a strategic outlook,” Ahmadinejad declared, characterising the agreement as a diplomatic coup against growing external pressure to isolate Tehran amid the ongoing nuclear impasse.

Ahead of the Zardari visit, the Pakistani cabinet committee (composed of senior figures in the finance, law, and petroleum ministries headed by the minister of state for finance) approved a 1.5 billion dollar agreement. In this sense, Zardari’s visit was to iron out the details of the deal, particularly the terms of Iranian financing, construction participation, and gas prices, since the Pakistani bureaucracy was already fully on board.

Nonetheless, the trip marked a dramatic turn in Islamabad’s foreign policy, with Zardari braving international pressure and risking irreversible estrangement with Washington, which has tirelessly pushed for an alternative supply from Turkmenistan, via Afghanistan, the so-called TAPI (Turkmenistan-Afghanistan-Pakistan-India) pipeline.

Ahead of the Zardari trip, outgoing secretary of state Hillary Clinton, in a statement to the U.S. Congress, warned Pakistan against pursuing the pipeline project, saying that “beginning the construction of such a pipeline, either as an Iranian project or as a joint project, would violate our Iran sanctions law.”

Canada’s hawkish leadership condemned the pipeline project, with foreign minister John Baird stating that “Canada is deeply disappointed by Pakistan’s decision” and that “Pakistan’s decision runs directly contrary” to the objective of isolating Iran over its nuclear programme.

In Pakistan’s view, however, the West is insensitive to the country’s national interests. Pakistan is grappling with an energy crisis, with power shortages hammering domestic industries and further angering the general public. Relations with Washington are frosty and mired in controversy, prompting occasional diplomatic jabs, with growing bilateral tensions over American drone strikes and anti-terror operations inside Pakistani soil.

Given the depth of the security crisis in Afghanistan, as the West swiftly draws down its military presence despite Taliban forces’ relentless push against the fragile Kabul-based government, the Washington-sponsored TAPI pipeline is far from a feasible and timely alternative. Iran represents an affordable and timely energy supplier, with the pipeline set to contribute as much as 20 percent of Pakistan electricity production.

The deal is a subtext of a broader trend where Iran – leveraging its sizeable hydrocarbon reserves – has been gradually warming up to energy-hungry U.S. allies such as Turkey, which has been Iran’s major natural gas customer and a vigorous critic of Western ‘secondary sanctions’ on Tehran’s energy partners.

Pakistan and Iran (together with Turkey) have been founding members of the regional body, the Economic Cooperation Organisation (ECO), and have for decades been exploring multiple ways of enhancing bilateral relations and regional economic integration.

Initially, the pipeline was conceived to extend as far as India, and potentially even China, but a combination of security concerns, external pressure, and pricing disagreements has confined the project to the two immediate neighbours. But Chinese banks are to provide some project financing, while Pakistani officials have indicated a possible extension and re-direction of the Iran-Pakistan pipeline once China is on board. The Iran-Pakistan pipeline, more importantly, will lay down the foundation of a broader trans-regional energy corridor, with Iran at its very core.

Crucially, the two sides have discussed broader strategic cooperation, especially over the insurgency and instability in the Balochistan province (a major threat to the pipelines) as well as the fate of Afghanistan. Given Western sanctions on Iran's financial and energy sectors, the bilateral talks also provided the basis for substantial barter deals.

The final agreement represents a new chapter in Iran-Pakistan relations, potentially resolving Pakistan's energy woes, but also signaling the West's limited capability to fully isolate an energy-rich Iran.