

Future of Iran-Pakistan gas pipeline project remains in limbo

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While Iran's ties with the West, especially US, may have hit rock bottom, Pakistan despite the public posturing will not be able to go ahead with the project at the cost of annoying the US.



By Tridivesh Singh Maini May 15, 2024

Image

Iran-Pakistan gas pipeline project

Pakistan recently reiterated its commitment in going ahead with the Iran-Pakistan gas pipeline project. The agreement for this project was signed in 2010 and was to be completed in 2014. Pakistan asked for a 10-year extension for completion of the 1,900 km pipeline (the reason cited for Pakistan's delay was US sanctions). The pipeline was to originally extend till India, but the latter pulled out of the deal citing security reasons.

So far Iran has invested \$2 billion in the project, from Iran's South Pars gas field to Balochistan (Pakistan), while Pakistan had not begun construction. Iran had warned Pakistan that it would take the latter to an international court and impose a fine of \$18 billion. It is for this reason along with the demands of Pakistan's domestic consumers, who rely on natural gas, that Islamabad has thought of reviving this project. Iran views the project not just as a means of improvement in ties with Pakistan, but also as an important step towards getting its economy back on the rails and, more importantly, dispelling the notion that it is isolated economically.

During Iranian President Ebrahim Raisi's Pakistan visit in April 2024, several issues were discussed including finalisation of a Free Trade Agreement (FTA) between both countries. The potential of energy cooperation between Pakistan and Iran, including trade in electricity and most importantly the Iran-Pakistan gas pipeline, was high on the agenda. While in March 2024 Pakistan had stated that it would seek exemptions from the US for the construction of the pipeline, the US has warned Islamabad against going ahead with the project saying that it would invite sanctions.

Tehran under close scrutiny

It would be pertinent to point out that of late, in the aftermath of the turmoil in the Middle East, the US has begun to keep a close watch on violation of sanctions imposed on Iran. Former US President Donald Trump along with several Republican lawmakers have accused the Biden administration of giving Iran major economic relief by relaxing some sanctions and enabling Tehran to fund some of its proxies like Hamas and Hezbollah. The US has also begun to take serious note of the sale of Iranian oil to China, via countries like the UAE, Malaysia and Singapore (Iranian oil is rebranded in these countries and then sold to China). On April 18, 2024 the US had imposed a fresh set of sanctions on Iran after the latter's missile and drone strike on Israel on April 13, 2024.

Pakistan's Defence Minister Khwaja Asif had been critical of the US and said that Islamabad would go ahead with the gas pipeline irrespective of the US warning. Pakistan's Foreign Minister Ishaq Dar recently said: "Whatever US says, we have to look at our own commitments. Pakistan cannot be dictated to. We are a sovereign country and just as we

respect the sovereignty of other countries, we too should be respected. There are many complications, but the government will take a decision. We will do what is in the best interest of Pakistan”.

Pakistan in a dilemma

While the gas pipeline may be an important priority for Pakistan, it cannot afford to annoy the US given the fact that Islamabad has been seeking to put its ties with Washington back on track. Pakistan is in negotiations with the International Monetary Fund IMF (IMF had approved \$1.1 billion disbursement as the final instalment of a \$ 3billion package for Pakistan). In April 2024, US had imposed sanctions on companies based in Belarus and China for supplying ballistic missile technology to Pakistan. While imposing these sanctions, the US Department of State said: "These entities have supplied missile-applicable items to Pakistan's ballistic missile program, including its long-range missile program."

Earlier this month, the US State Department stated that it would support efforts of Pakistan to deal with its economic challenges and its negotiations with the IMF.

The Iran-Pakistan gas pipeline is important from an economic perspective for both countries that are dealing with severe economic challenges. For Iran, revival of the project has symbolic value as well in the face of its West-led international isolation. While Iran's ties with the West, especially the US, may have hit rock bottom, Pakistan despite public posturing cannot possibly go ahead with the project at the cost of annoying the US. Irrespective of the result of the US presidential elections later this year, Washington's approach towards Tehran is unlikely to change – if anything, the US approach will only become tougher under a Trump presidency.

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