

Iranian Pipe Dreams

Iran's new president fuels uncertainty for new gas pipeline to India

by Roxana Saberi in Tehran, Iran

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The election of Iran's hardline conservative President-elect Mahmud Ahmadinejad is worrying many people in the oil and gas market and has added to uncertainty over the future of a proposed pipeline to take gas from Iran to India via Pakistan.

"For the time being, I think during the Ahmadinejad government, a slower pace in the finalization of foreign oil and gas deals will be seen since he is a strong supporter of domestic companies," said Hooman Dolatshahi, an analyst at [Atieh Bahar Consulting](#) in Tehran.

"The fate of the Iran-Pakistan-India pipeline also depends on who is chosen as the new petroleum minister and how much the person is influenced by the Majles [Iranian parliament]," he added. "The top figures on the Majles Energy Commission are strongly against gas export deals."



In June, India, Pakistan and Iran signed a memorandum of cooperation, setting the framework for discussions on the amount of gas to be transported and when the project would begin. The initially proposed cost of the 1,720-mile pipeline was in the range of USD \$3.5 billion to \$4.5 billion according to Iran's official news service, [IRNA](#).

Also in June, Iran and India signed a deal worth USD \$22 billion for Tehran to supply 5 million tons of liquefied natural gas (LNG) annually over a 25-year period from 2009.

With roughly 27 trillion cubic meters of gas, Iran has the biggest known natural gas reserves in the world after Russia. Due to various factors, however, Iran is far from realizing its position in the global gas market. Observers point to a stall in the country's economic and infrastructural development during its 1980 to 1988 war with Iraq, as well as poor management and planning, as the primary reasons for its lagging placement in the market. Iran now claims only around 5 percent of the world's gas production, most of which is for domestic consumption, while relying on its rising oil revenues.

The President-elect has sent mixed messages about his fossil fuel plans, saying his government will remove obstacles to investment but will favor domestic investors over foreign ones.

"Fighting bureaucratic corruption in all sectors, including oil, is part of a definite policy for our government," Ahmadinejad told reporters at a news conference in June.

"In all fields, including oil, priority will be given to local investors," he added.

The managing director of the National Iranian Gas Export Co. has tried to calm worries by rejecting the possibility that the incoming government won't go ahead with the project. Roknoddin Javadi told Iran's Student News Agency that the plan has already been endorsed by Iran's supreme leader, Ayatollah Ali Khamenei, who has the final say on all matters.



India's Petroleum Minister Mani Shankar has also said the change in regime in Iran will have no impact on New Delhi's plans to import natural gas from the Islamic republic to develop oil fields there. He said that officials from India and Pakistan have begun talks on a timetable for the construction of the pipeline.

Still, some industry analysts as well as political and economic analysts are concerned that Ahmadinejad may follow the economic policies of the conservative-dominated parliament, which has supported price controls and taken steps against some foreign-investment deals.

In addition to his support from many of the country's hardline security forces, Ahmadinejad won backers from among Iran's lower-income and rural classes, who hope he will help spread the country's oil wealth more evenly. Ahmadinejad's win surprised many observers, who had predicted that former President Akbar Hashemi Rafsanjani, known to support open-market policies, would be elected.

Ahmadinejad's win "won't affect the pipeline but it will definitely affect [liquid natural gas] projects," said Dr. Narsi Ghorban, an analyst at the Caspian Studies in Tehran. "The pipeline is very much in line with popularistic views because it will be built by Iranians, and it will bring money and work to deprived areas."

Liquefied natural gas "needs more foreign investment and borrowing, as well as capital and technical know-how from the outside, which the pipeline doesn't need," Ghorban added. "For this reason the proposed pipeline will be much more in line - I won't say absolutely in line - with [Ahmadinejad's] thinking than the LNG project."

Negotiations on the proposed pipeline began in 1994, but little headway was made until last year, mainly because of tensions between Pakistan and India. The recent warming of ties between the two rivals has led to new hope for the pipeline.

But besides uncertainty sparked by Ahmadinejad's victory, other obstacles remain in the way of the pipeline.

Guaranteeing the security of the pipeline and determining its path remain unresolved issues. The most seriously considered route would be overland through the unstable Pakistani province of Baluchistan.

The three countries also have yet to agree on the price of gas transportation.

"India and Pakistan have reached some agreements, and they are pressuring Iran to reduce the price and give them more of a discount, but Iran doesn't agree with it," analyst Dolatshahi said.

"Trilateral negotiations have not taken place between these three countries," he added. "All that have been done is bilateral

negotiations. And it seems that there are more important issues that should be solved here, such as the place of gas delivery. Although it has been agreed to deliver it on Pakistan-India border, this matter has not been fully resolved."

Another major factor is U.S. pressure on India and Pakistan to not go through with the project. Washington accuses Tehran of pursuing nuclear weapons, supporting terrorism, and oppressing human rights - all charges Iran denies. America's Iran-Libya Sanctions Act of 1996 threatens sanctions on non-U.S. companies investing more than USD \$40 million (later reduced to \$20 million) annually in the Iranian oil and natural gas sectors. In 2001, President George W. Bush renewed the act for another five years.

While the act has never been implemented, U.S. Secretary of State Condoleezza Rice is reported to have hinted to both India and Pakistan that if they proceed with the pipeline, they could invite U.S. ire. The United States has also other projects to transfer gas to Pakistan in order to isolate Iran.

Indian officials have said they would go ahead with the pipeline idea while Pakistan has maintained that its government would make a final decision based on its national interest.

Iran also faces the threat of sanctions by the U.N. Security Council, if the standoff over its nuclear program is not resolved through the ongoing talks it is holding with the European Union.

Responding to U.S. pressure, Iran's Oil Minister Bijan Zanganeh told reporters in June: "It is unreasonable to prevent India and Pakistan from accessing Iranian gas. Energy markets should be depoliticized. We sell crude oil and LNG. Why can't we be allowed to sell piped gas?"

Zanganeh, speaking in Pakistan, indicated late June that initial work for the project could commence next year.

With the replacement of Reformist President Mohammad Khatami by Ahmadinejad in August, analyst Hafezian said U.S. opposition to the project is likely to intensify.

"Because of Khatami's being in power, the U.S. hasn't exerted much pressure on Pakistan," he said. "But with [the] election of Ahmadinejad, who is regarded as illegitimate [by Washington], the case is different. The U.S. will heighten pressures on Pakistan and India to terminate this agreement. It's very dubious that the pipeline will be established."

Some opponents of exporting gas argue that Iran should use its gas for domestic uses, including injection to sustain flagging oil production. Others, however, disagree, saying that the pipeline is an opportunity to supply energy-hungry India and Pakistan and would

benefit Iran, not only economically but also geopolitically.

Indeed, deals like the proposed Iran-Pakistan-India pipeline, which may someday be extended to China, are seen as part of Tehran's larger strategy to withstand U.S.-led pressure.

In addition to the proposed pipeline, Iran has also been arranging energy deals and building partnerships with countries such as China and Japan. As a permanent member on the U.N. Security Council, China has the power to veto any resolutions to sanction Iran.

Although there is no guarantee that Iran's business partners will turn into political allies, some observers believe it's worth a try for Tehran.

"Depending on the issue involved, Pakistan, India, China may

indeed come to Iran's assistance in times of need because of the pipeline," said one Tehran-based energy consultant, who declined to be identified. "It makes sense and is logical that this deal will seal a strong bond between Iran and the South/Far-East Asia."

These ties could be strengthened under Ahmadinejad's presidency. The president-elect is thought to be a close follower of Iran's Supreme Leader, Ayatollah Ali Khamenei, who has the final say on all matters. Khamenei is known to look more toward Asia, especially to China and India, instead of to the West.

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