

FUELING PROGRESS: THE IRAN-PAKISTAN (IP) GAS PIPELINE

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



On March 13 2024, Pakistan announced the construction on an 80-kilometer (49-mile) segment of the Iran-Pakistan gas pipeline, also known as the 'Peace Pipeline,' within its territory, signifying an important step towards economic connectivity between the two countries.

Originally proposed in 1994 as the Iran-Pakistan-India (IPI) pipeline, the project evolved into a bilateral venture between Pakistan and Iran following India's withdrawal in 2008. India's decision to pull out of the project was influenced by escalating U.S. sanctions against Iran, coinciding with India's signing of a civil nuclear deal with the U.S. in 2008. Citing concerns over pricing and security, India officially withdrew from the project the following year. In March 2010, Pakistan and Iran agreed to the IP project in Ankara.¹ The deal mandated completion of each country's pipeline segment by 2014 and failure to meet the deadline entailed a significant penalty in dollars terms. By March 2012, Pakistan's Ministry of Finance voiced concerns over funding. Options included seeking assistance from Iran, China, and Russia. Nonetheless, Pakistan ratified the agreement in January 2013 and in March 2013 work on the pipeline officially commenced.

The Iranian segment, covering 1,100 km, begins from the Pars energy economic zone to Iranshahr and Bushehr, passing through Fars, Kerman, Hormozghan, and Sistan–Balochistan. Conversely, the Pakistani section, around 780 km long, extends from the border to Nawabshah, with approximately

¹ "Iran-Pakistan Gas Pipeline: Cost-Benefit Analysis," Islamabad Policy Research Institute, April 04, 2014. <https://ipripak.org/iran-pakistan-gas-pipeline-cost-benefit-analysis/#:~:text=However%2C%20Pakistan%20and%20Iran%20signed,on%2030th%20January%202013.>

665 km crossing Balochistan and 115 km traversing Sindh. In September 2019, Pakistan's Inter State Gas Systems (ISGS), and the National Iranian Gas Company (NIGC) formulated a new agreement for the pipeline's construction which aimed to devise a practical solution for the project's completion, estimated to incur a cost of approximately \$158 million. Starting from the Iranian border, extending towards the port area of Gwadar situated in Pakistan's southwestern Balochistan province, the IP pipeline on Islamabad's part has encountered challenges in advancing the project due to U.S. sanctions on Iran and ensuing financial constraints. Pakistan is expected to fulfill its obligations by 2024.² It is important to note that, Iran has reportedly invested \$2.0 billion in the pipeline project on its side of the border.³

Despite apprehensions raised by the U.S. regarding potential violations of sanctions imposed on Iran, on March 7, 2024, Pakistan Foreign Ministry spokesperson Mumtaz Zahra Baloch stated that the project is progressing "in conformity with our commitment to the Iran-Pakistan pipeline."⁴ She further emphasized that Pakistan perceives no grounds for objections from external parties as the construction activities are confined within Pakistani territory. Previously, on 23 February 2024, Pakistan's Cabinet Committee on Energy granted approval for the IP pipeline project, which allowed for the initiation of work. The financing for this project will be facilitated through the Gas Infrastructure Development Cess (GIDC), which falls under the Special Investment Facilitation Council (SIFC).⁵ With the project now falling under the purview of SIFC, it is poised to navigate bureaucratic hurdles efficiently, facilitating its progression.

² "ISGS, NIGC Ink Revised Accord for IP Gas Pipeline Project," *The Express Tribune*, September 16, 2019. <https://tribune.com.pk/story/2058009/isgs-nigc-ink-revised-accord-ip-gas-pipeline-project>.

³ "Iran-Pakistan Gas Pipeline: A Case That Deserves Greater Attention." *Business Recorder*, March 21, 2024. <https://www.brecorder.com/news/40294909>.

⁴ "Pakistan Begins Work on Iran-Pakistan Gas Pipeline Segment Despite US Sanctions." *Pipeline Technology Journal*, March 13, 2024. <https://www.pipeline-journal.net/news/pakistan-begins-work-iran-pakistan-gas-pipeline-segment-despite-us-sanctions>.

⁵ "IP Gas Pipeline Project: CCoE Decides to Start Work on First Phase," *Business Recorder*, February 24, 2024. <https://www.brecorder.com/news/40290480>.



(Source: Sui Northern Gas Pipelines Limited)

In February 2024, Tehran reportedly granted Islamabad an extension - totaling 180 days - until September 2024 to complete its 500-mile section of the pipeline. The objective of the extension is to circumvent potential legal disputes between the two countries at international tribunals. To deal with Western sanctions, according to an opinion from an international legal firm cited in middle eastern news source *Al-Monitor*, Pakistan's petroleum division has suggested a change in plans, by emulating the successful 2022-2023 Iran-Gwadar electricity transmission line. Instead of a full pipeline to Gwadar from Iran, they propose starting with a shorter "pipe" from the Pakistan-Iran border. This change in wording could help get a waiver for sanctions, and this way, a 50-mile part of the pipeline can connect Gwadar to Iran's main pipeline. The pipeline's initial segment linking Gwadar to Iran's main pipeline ensures gas provision to Gwadar from the outset.⁶ Given fluctuating LNG prices, this project emerges as vital for Pakistan, guaranteeing a reliable energy supply.⁷

Iran's gas sales to Azerbaijan indicate that similar transactions can proceed despite hurdles posed by U.S. sanctions. Moreover, the 2023 Saudi-Iran rapprochement, facilitated by China, implies that obstacles hindering the project's completion may diminish. Furthermore, in order to cater to

⁶ "IP Gas Pipeline Project: Pakistan to Lay 81-Km Pipeline from Gwadar to Iranian Border," *The News International*, February 19, 2024. <https://www.thenews.com.pk/print/1159170-ip-gas-pipeline-project-pakistan-to-lay-81-km-pipeline-from-gwadar-to-iranian-border>.

⁷ Siddiqui, Sabena. "Iran-Pakistan Gas Pipeline Gets a Reset, Can It Overcome Sanctions?" *Al-Monitor*: February 26, 2024. https://www.al-monitor.com/originals/2024/02/iran-pakistan-gas-pipeline-gets-reset-can-it-overcome-sanctions?token=eyJlbWFpbCI6ImFyaGFtYS5zaWRkaXFhQGdtYWlsLmNvbSIsIm5pZCI6IjYzMDIyIn0%3D&utm_medium=email&utm_campaign=Ungrouped%20transactional%20email&utm_content=Ungrouped%20transactional%20email+ID_c217f38c-e426-11ee-9f86-48dfd66718f7&utm_source=campmgr&utm_term=Access%20Article

growing domestic needs, there is a conscious effort to move towards regional connectivity as well as secure and sustainable energy linkages.

Upon completion, the Iran-Pakistan gas pipeline project will significantly benefit both countries, enhancing energy security and economic ties. With an expected output of 750 million cubic feet of gas per day, it could substantially ease Pakistan's energy crisis. For Pakistan, the project signifies progress towards energy security, reducing reliance on Gulf states and the West. It could also save up to one billion dollars annually by replacing expensive furnace oil with Iranian gas. Moreover, the pipeline offers a secure alternative gas supply and enhances Pakistan's negotiating position for LNG imports. Additionally, it is expected to create jobs in Balochistan and Sindh, promoting socio-economic development in these regions.

For Iran, the project provides a means to overcome economic isolation and further utilize its vast natural gas reserves. It also stands to accelerate work on a Free Trade Agreement (FTA) discussed between the two countries⁸ as well as enhance bilateral political ties, particularly amid evolving regional geopolitics. Natural gas, being cleaner than coal and oil, leads to reduced carbon emissions and better air quality. Its widespread use in power generation and industry promotes environmental sustainability and decreases Pakistan's carbon footprint.

From an economic and commercial standpoint, the IP Gas pipeline represents an excellent and viable option for Pakistan. Given its cost-effectiveness and numerous economic benefits, such as addressing energy needs and facilitating economic recovery, Pakistan should persist in pursuing the IP gas pipeline. While international concerns may exist, Pakistan will have to pursue projects that help address its urgent energy needs and are aligned with its national interest. The project's progression and realization depend largely on the actions of the SIFC and the newly formed government, which now holds the responsibility for deciding the fate of the IP project.

⁸ "Pakistan, Iran Agree to Accelerate Work on Free Trade Agreement," Ministry of Information and Broadcasting, May 18, 2023.
<https://moib.gov.pk/News/53342>