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# Iran-Pakistan Gas Pipeline

## Navigating Complexities of International Relations



Issue Brief

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## Introduction

Pakistan, with a population of over 240 million,<sup>1</sup> is on track to double its population within the next few decades. This rapid demographic expansion raises significant concerns, particularly regarding escalating energy demands. The reliance on imported energy resources strains Pakistan's external payments balance, leading to persistent currency depreciation. Simultaneously, the growing population intensifies the utilization of local energy resources in an unsustainable manner, posing a formidable challenge in meeting present and future energy needs. While Pakistan historically leaned heavily on thermal energy sources, notably furnace oil, the government has progressively shifted towards more sustainable and locally sourced alternatives, as the Ministry of Energy outlined in 2021.

Natural gas contributes about 29.3%<sup>2</sup> to Pakistan's total primary energy supply mix. As the country's leading energy source, gas contributes to its use in almost all sectors, including the fertilizer industry as a feedstock (non-energy) and as a fuel. Historically, gas was the primary source of thermal power generation, but due to the decline in gas reserves in the last decade, its contribution to power generation has dropped significantly. However, recently, the government decided to add liquefied natural gas (LNG) as a gas resource for power generation.

Households experience shortages in gas supply due to increased usage by the power sector, driven by its cost-effectiveness compared to furnace oil, and the gradual depletion of local gas reserves. The government's policy promoting compressed natural gas (CNG) as a more economical alternative to imported petroleum fuels has stimulated demand in this sector. Nevertheless, the existing local gas reservoirs prove inadequate to satisfy the escalating demand. Furthermore, limited investment and governmental initiatives hinder local gas exploration efforts, exacerbating the supply-demand imbalance.

Consequently, Pakistan resorts to importing gas from external sources to mitigate its demand-supply gaps. Approximately 31.4%<sup>3</sup> of its natural gas requirements are met through imports facilitated by costly sea tankers. In FY 2022-23, the LNG imports declined to 337,314,294 MMBTu from 397,965,590 MMBTu in FY 2021-22.<sup>4</sup> In 2022-23, Pakistan recorded LNG imports worth \$3767 million.<sup>5</sup> Conversely, Pakistan's neighboring country, Iran, possesses substantial reserves of approximately 31.9 trillion cubic meters, constituting roughly 16.2% of the world's total natural gas reserves.<sup>6</sup> This underscores a significant opportunity for Pakistan to leverage imported gas from Iran, potentially alleviating the need for costly imports.

## Context of Iran-Pakistan Gas Pipeline

Iran, situated west of Pakistan with a border stretching 832 kilometers, boasts abundant energy resources. However, Iran's progress in nuclear capabilities has resulted in economic sanctions imposed by both the United Nations and the United States, limiting its full participation in the global oil and gas markets. Despite these challenges, Iran's proximity presents a significant opportunity for Pakistan to address its energy deficit by importing gas from its closest neighbor.

The idea of Pakistan importing Iranian gas dates back to the 1950s and gained traction in 1989.<sup>7</sup> Subsequently, in 1995, both nations formalized their intent by signing an agreement to construct a natural gas pipeline linking Karachi with Iran's largest natural gas field, the South Pars Natural Gas Field. Initially conceived as the Iran-Pakistan-India gas pipeline, the project saw India's withdrawal in 2009 following its nuclear energy agreement with the US. Despite this setback, Iran and Pakistan

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<sup>1</sup> "Announcement of Results of 7th Population and Housing Census," Pakistan Bureau of Statistics, 2023.

<sup>2</sup> "Economic Survey of Pakistan," Ministry of Finance, 2022-23.

<sup>3</sup> Hydrocarbon Development Institute of Pakistan. 2023. Pakistan Energy Yearbook 2022-23.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> "BP Statistical Review of World Energy, 2019," 68th Edition, BP.

<sup>7</sup> H.S.K. Nathan, S.S. Kulkarni, and D.R. Ahuja, "Pipeline politics – A study of India's proposed cross border gas projects," *Energy Policy* 62, (November 2013): 145-156. doi:10.1016/j.enpol.2013.06.073

proceeded with the plans, aiming to complete their respective pipeline sections by 2014. While Iran successfully fulfilled its obligations by 2011, Pakistan encountered obstacles due to external pressure from the US and Saudi Arabia.<sup>8</sup> Citing concerns over US-imposed sanctions on Iran stemming from its nuclear program, Pakistan faced delays in constructing its portion of the pipeline despite Iran's completion of its segment.

Despite efforts, Pakistan has struggled to attract investors to complete its section of the project. As a result, the pipeline remains unfinished to this day. The Asian Development Bank provided a comprehensive report on the Iran-Pakistan gas pipeline project in 2012, detailing its impact, financing requirements, and the substantial work needed for its completion. The project is estimated to necessitate approximately \$7.6 billion for its realization, with a planned capacity of 5.3 billion cubic feet per day (bcf/d). This project holds promise in addressing Pakistan's escalating energy demands at a comparatively lower cost, potentially saving significant foreign exchange spent on importing LNG from Qatar.

### **Gas Demand and Shortage**

Pakistan's demand for natural gas has been steadily increasing, driven by population growth, urbanization, and industrial expansion. According to the Ministry of Energy (Petroleum Division), the country's total gas consumption surpasses 6 bcf/d, exceeding its indigenous gas production of approximately 4 bcf/d.<sup>9</sup> This imbalance between supply and demand has resulted in a widening energy deficit, aggravating the country's energy crisis.

Several factors contribute to the shortfall in gas supply, including the depletion of existing gas reserves, insufficient exploration and production efforts, infrastructure limitations, and inefficiencies in the gas distribution system. Additionally, challenges such as political instability, security issues, and policy inconsistencies have deterred investment in the gas sector, further widening the gap between supply and demand.

### **What the Pipeline Brings for Iran and Pakistan**

The Iran-Pakistan pipeline project holds the potential to stimulate economic growth in Iran, reduce unemployment rates, and foster regional peace. Iran initially aimed to supply Pakistan with 750 million to 1 billion cubic feet<sup>10</sup> of natural gas daily for a 25-year period.<sup>11</sup> Iran's historically strained relations with the US have resulted in its relative isolation within the region. The pipeline represents a strategic opportunity for Iran to strengthen ties with neighboring countries, potentially alleviating tensions and promoting regional cooperation.

Apart from fostering interdependence, Pakistan stands to gain various advantages from the construction of a pipeline extending into India. Lower gas costs within Pakistan would be realized, alongside anticipated transit fees amounting to \$600 million to \$700 million annually. Additionally, the pipeline's construction is expected to spur development in Balochistan province and create employment opportunities in Balochistan and Sindh. These regions, which often feel neglected by the federal government, would particularly benefit. Moreover, the pipeline's potential to generate 5,000 megawatts of electricity for Pakistan is crucial, given the current discontent stemming from high electricity prices, electricity shortages, and power cuts.

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<sup>8</sup> Haroon Janjua, "US sanctions hamper Iran-Pakistan pipeline deal," Deutsche Welle, May 20, 2019, accessed April 20, 2024, <https://www.dw.com/en/iran-gas-pipeline-deal-with-pakistan-hampered-by-us-sanctions/a-48802450>.

<sup>9</sup> Zamir Ahmed Awan, "Iran-Pakistan Gas Pipeline and implications," Modern Diplomacy, March 30, 2024, accessed April 15, 2024, <https://moderndiplomacy.eu/2024/03/30/iran-pakistan-gas-pipeline-and-implications/>.

<sup>10</sup> Sarah Zaman, "No Need for US Waiver to Build Gas Pipeline With Iran, Pakistan Says," VOA, March 21, 2024, accessed April 22, 2024. <https://www.voanews.com/a/no-need-for-us-waiver-to-build-gas-pipeline-with-iran-pakistan-says-/7537570.html>.

<sup>11</sup> Ahmad Ahmadani, "Iran-Pakistan gas pipeline project is back on the table," Profit, October 19, 2022, accessed April 25, 2024, <https://profit.pakistantoday.com.pk/2022/10/19/iran-pakistan-gas-pipeline-project-is-back-on-the-table/>



## Current Status of the Project

In February 2024, the caretaker government granted approval for the commencement of construction on the initial 80 kilometers of the pipeline project within Pakistani territory.<sup>12</sup> This decision follows Iran's ultimatum to pursue legal action against Pakistan in international courts due to Islamabad's failure to meet project deadlines. With Iran having completed its section of the pipeline over a decade ago, Pakistan has faced mounting pressure to expedite construction on its side of the border. Despite Pakistan's repeated assertions of its intent to proceed with the project, the looming threat of penalties for potential violations of US sanctions on Tehran has posed significant challenges. These sanctions impede Iran's energy exports to Pakistan and neighboring countries, complicating bilateral energy cooperation efforts.

Under the latest agreement, Iran has reportedly granted Pakistan an extension until September 2024 to finalize the project, thereby averting potential fines amounting to approximately \$18 billion.<sup>13</sup> This development underscores the delicate balance Islamabad must navigate between its energy requirements and international obligations. The approval for pipeline construction will mark a pivotal step forward in bilateral relations between Iran and Pakistan. It will underscore Pakistan's commitment to addressing energy needs and fostering regional cooperation while highlighting the complexities involved in navigating international sanctions regimes.

## Prospects and Challenges for Iran-Pakistan Gas Pipeline

Pakistan's approach to the Iran-Pakistan gas pipeline project reveals a delicate balancing act between its strategic interests with Iran and its imperative to maintain a positive relationship with the US. While Pakistan signals its seriousness in building the pipeline to Iran, it also seeks to assure Washington of its compliance with US sanctions on Tehran.<sup>14</sup> Despite assertions from the Foreign Office<sup>15</sup> that US consent is not necessary, Pakistan is unlikely to proceed with the pipeline without tacit approval from Washington. The avoidance of antagonizing the US, especially given its ongoing tensions with Iran in the Middle East, remains a priority for Islamabad, particularly in light of Pakistan's pressing economic needs and dependence on foreign assistance.

It is evident that Pakistan's decision to delay pipeline construction thus far has been driven by a complex interplay of diplomatic, economic, and strategic considerations. While facing the looming threat of substantial financial penalties from Iran, Pakistan has refrained from initiating construction, citing the formidable obstacle of US sanctions. Pakistan may seek to leverage its diplomatic channels to secure a waiver from US sanctions or negotiate a favorable resolution to the impending penalties from Iran. The country's readiness to engage in dialogue with both Iran and the US underscores its commitment to advancing its economic interests while navigating the geopolitical landscape.

However, Pakistan's ability to meet the September 2024 deadline for pipeline completion remains uncertain, given its precarious economic situation and ongoing negotiations with international financial institutions for assistance. The successful realization of the project hinges on Pakistan's ability to navigate these challenges effectively while maintaining a delicate balance between its regional partnerships and international obligations.

Pakistan also recognizes the importance of fostering strong ties with China and other regional nations, particularly amid current rifts. Given the opposition from the US towards the Iran-Pakistan gas pipeline

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<sup>12</sup> Umair Jamal, "Will Pakistan Go Ahead and Build the Gas Pipeline With Iran?" *The Diplomat*, March 26, 2024, accessed April 20, 2024, <https://thediplomat.com/2024/03/will-pakistan-go-ahead-and-build-the-gas-pipeline-with-iran/>.

<sup>13</sup> F.S. Aijazuddin, "Peace pipe and war," *Dawn*, May 2, 2024, accessed May 2, 2024, <https://www.dawn.com/news/1830906>.

<sup>14</sup> "Pakistan to seek US waiver for Iran gas pipeline project," *The Express Tribune*, March 25, 2024, accessed April 22, 2024, <https://tribune.com.pk/story/2460482/pakistan-to-seek-us-waiver-for-iran-gas-pipeline-project>.

<sup>15</sup> Sarah Zaman, "No Need for US Waiver to Build Gas Pipeline With Iran, Pakistan Says," *VOA*, March 21, 2024, accessed March 22, 2024, <https://www.voanews.com/a/no-need-for-us-waiver-to-build-gas-pipeline-with-iran-pakistan-says-/7537570.html>.

project, Pakistan understands the necessity of providing assurances regarding the project's ability to meet its energy needs in order to uphold its reputation. In the future, Pakistan may explore avenues to reassure the US of the project's benefits, potentially leading to a shift in the American stance. This could involve offering specific trade conditions or guarantees to secure a waiver from US sanctions, demonstrating Pakistan's commitment to meeting its energy requirements while addressing international concerns.

The April 13 missile attack carried out by the Iranian government, in self-defense,<sup>16</sup> on Israel amid the ongoing conflict between Palestine and Israel heightened tensions in the region. There is a possibility that Israel's allies may respond with sanctions<sup>17</sup> against Iran in retaliation for the attack. If Israel were to opt for retaliation, there might be a heightened probability of increased sanctions on Iran, potentially affecting various ongoing projects. In particular, these sanctions could affect the Iran-Pakistan gas pipeline project. Any disruption to trade relations or financial transactions between Iran and its partners due to sanctions could lead to delays in the implementation of the pipeline. Such delays would likely impact the timeline for the completion of the project, potentially causing setbacks and necessitating adjustments to the planned schedule. Given the geopolitical complexities involved and the sensitivity of the situation, it is essential for all parties to exercise restraint and pursue diplomatic channels to address grievances and resolve conflicts. The region's stability and the successful execution of vital projects like the Iran-Pakistan gas pipeline depend on constructive dialogue and peaceful resolution of disputes.

## Conclusion

The Iran-Pakistan gas pipeline project stands as a testament to the enduring partnership between the two nations and the potential for regional cooperation in the energy sector. Despite challenges stemming from international sanctions and geopolitical tensions, recent developments signal progress toward realizing this vital infrastructure initiative. Pakistan's commitment to the project underscores its strategic imperative to diversify energy sources and address pressing economic needs. The extension granted by Iran reflects a pragmatic approach to resolving issues and fostering bilateral cooperation.

As both countries navigate the complexities of international relations and economic constraints, it is imperative to maintain open channels of communication and pursue diplomatic solutions to any challenges that may arise. The successful implementation of the Iran-Pakistan gas pipeline holds the promise of mutual benefits, bolstering energy security, fostering economic growth, and strengthening regional ties. Moving forward, continued engagement, collaboration, and adherence to agreed-upon timelines will be essential to ensure the timely completion and operationalization of this critical infrastructure project. By leveraging shared interests and forging ahead with determination, Iran and Pakistan can pave the way for a brighter and more prosperous future for their people and the wider region.

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<sup>16</sup> Mustafa Fetouri, "Iran didn't attack Israel, it acted in self-defence," Middle East Monitor, May 2, 2024, accessed May 2, 2024, <https://www.middleeastmonitor.com/20240502-iran-didnt-attack-israel-it-acted-in-self-defence/>.

<sup>17</sup> "US imposes new sanctions on Iran after attack on Israel," Al Jazeera, April 18, 2024, accessed April 25, 2024, <https://www.aljazeera.com/news/2024/4/18/us-imposes-new-sanctions-on-iran-after-attack-on-israel>.



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