



International Workshop on Pakistan-Russian Collaboration & the Afghan Crisis

November 1, 2010

Pakistan's Future Role as Regional Energy Corridor

Ishtiaq Ahmad

Organised by South Asian Strategic Stability Institute (SASSI), in collaboration with
Moscow State Institute of International Relations (MGIMO-University), Islamabad

Introduction

It is principally because of its unparalleled geo-political and geo-economic significance in South, West and Central Asia that Pakistan is qualified to be an energy corridor for regional states and beyond. The war in Afghanistan, Pakistan's rivalry with India and tension in US-Iranian ties can be cited as three major factors that have so far impeded the emergence of such energy corridor. However, this does not mean that serious attempts to fully harness Pakistan's unique regional status are not being made. In fact, noticeable progress for the purpose has been achieved on three different fronts in recent years.

In 2010 alone, a final framework agreement on the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline project was concluded by the four countries, and Iran and Pakistan finalized the details of their own gas pipeline project. The Gwadar port is a testament of Pakistan's potential as a Trade and Energy Corridor for China, with so many proposals to use it for meeting China's future energy needs currently in pipeline. Pakistan, thus, remains at the centre of energy-centric geo-economic activity in the region, which has enormous potential for enriching the regional states, big or small, and enabling their people in billions to live in perpetual peace.

Speedier progress on all of these three fronts will help promote regionalism, connecting West Asia with South Asia, Central Asia with South Asia, and South Asia with East Asia. Iran and Central Asian states are looking for regional markets to export their hydrocarbon riches. And energy-starved economies of China and India need oil and gas to achieve sustained level of economic growth. Transit revenues and industrialized projects accompanying the realization of pipeline projects will allow countries like Afghanistan and Pakistan to develop an indigenous economic base—not be dependent ever on foreign aid. Above all, it will help improve relations between historical rivals, between India and Pakistan, and India and China. It will end unnecessary tension over security issues between countries like Pakistan and Afghanistan, which are uniquely connected to each other through geography, ethnicity and history.

So, in the end, Pakistan's operational emergence as an energy corridor in South, West and Central Asia creates a win-win situation for not all the countries and nations of these historically-linked sub-regions of Asia, it also potentially benefits all the extra-regional powers who have a stake in Asian stability in the 21st Century and beyond. Pakistan's potential position as a chief energy corridor for the region is also in consonance with the post-Cold War global trend of regionalism and regionalization as a by-product of the process of globalization or in reaction to the forces of globalization. For its part, Pakistan has always supported multilateral frameworks for economic cooperation, including South Asian Association for Regional Cooperation, Economic Cooperation Organization and Shanghai Cooperation Organization. In short, it is the emerging geo-political and geo-economic environment that has brought to the fore Pakistan's geographic advantage at the cross-roads of three most important sub-regions, West Asia, Central Asia, and South Asia.

Turkmenistan-Afghanistan-Pakistan-India Pipeline

For the past 15 years, the project of transporting natural gas from resource-rich Central Asia to energy-starved countries of South Asia had been on hold due to lingering warfare and accompanying insecurity in Afghanistan. Several memorandums of understanding and agreements on Turkmenistan-Afghanistan-Pakistan (TAP) gas pipeline concluded during the period became its casualty. In April 2008, the three countries were joined by India to realize the same expanded project that became known as the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline. Finally, on December 11, 2010, after nearly two years of inter-governmental deliberations, the Presidents of Turkmenistan, Afghanistan and Pakistan, and India's Energy Minister signed a framework agreement at a summit in Ashgabat to build the 1,680-kilometer pipeline.

With an estimated cost of \$7.6 billion, TAPI would transport approximately 33 billion cubic meters (bcm) of natural gas from the Turkmen gas fields of South Yolotan and Usman, which are believed to possess a maximum estimated capacity of 14 trillion cubic meters (tcm) of natural gas. The framework agreement sets five years (2010-14) as the period for constructing the pipeline and 2015 as the deadline for it to start pumping the gas.

The central issue facing TAPI is security, which is needed for construction of the pipeline and ensuring sustained supply of gas through it upon completion. For out of 1,680 km, only 100 km of it will touch Turkmen and Indian territories. The rest will have to pass through mostly troubled terrain of Afghanistan (the provinces of Herat, Helmand and Kandahar, the last two being the hub of Taliban-led insurgency stronghold) and Pakistan (the restive regions of Balochistan and south Punjab). TAPI will end at the Indian border city of Fazilka. It was in 1995 that the first MoU on the pipeline in its original form was concluded by Turkmen, Taliban and Pakistani foreign ministers. However, despite the fact that the Afghan territory through which the pipeline had to pass was controlled by Taliban, the project could not materialize due to security concerns. The security situation did not improve in subsequent years of the Taliban era, and the same factor has haunted the project ever since.

Even at present, Taliban-led insurgency in Afghan and Pakistani tribal borderlands shows no sign of receding. Therefore, before the work to construct the pipeline could begin effectively and safely, so as it enable it to start transporting gas by 2015, either the insurgency has to be militarily curbed or the process of reconciliation with the insurgents has to succeed in the months ahead. Neither of these two propositions, defeating insurgency and reconciling the insurgents, seems to work currently. However, down the lane, the possibility of geo-economic preferences of the signatory states superseding their geo-political rivalries may help the first-ever energy project across a troubled terrain succeed, eventually integrating Central Asia with South Asia—with Afghanistan and Pakistan constituting an energy corridor.

Since gaining independence in 1991, Turkmenistan has pursued a declared national policy of political neutrality in regional affairs. Afghanistan is a project of the international community, which must support an energy project that may go a long way in reducing Afghan dependence on external assistance. So, it is basically India and Pakistan, which have to undertake a paradigm shift in their respective regional outlook—away from security-dominated geo-political rivalry in the region towards a cooperative stance grounded in their common quest for the relatively cheaper source of future energy from Central Asia.

That South Asia's archrivals have joined hands over TAPI may be an outcome of their mutual realization of the value of geo-economic cooperation and the cost of geo-political competition in the region. Such perceptual change already holds true for Afghanistan and

Pakistan, as their bilateral relations in recent years have rarely experienced tension and shown more meaningful cooperation.

TAPI could, in fact, become the first product of compatibility of economic interests among the four signatory states grounded in their common desire for enhanced revenue and more energy resources. It is a win-win deal for the four nations, diversifying Turkmenistan's natural gas exports, reducing Afghanistan's dependence on foreign aid, overcoming Pakistan's acute energy crisis and sustaining India's rapid economic growth.

For Turkmenistan, the pipeline would generate additional revenue and an alternative route to export its vast natural gas reserves. The land-locked Central Asian republic possesses the world's fourth-largest proven reserves of gas and is eager to find new markets, reducing its dependence on Russia, its traditional client. Ashgabat has already increased gas supply to Iran. Since late 2009, a 7,000 kilometer pipeline to China has begun pumping gas from Turkmenistan, which is also ambitious to build a pipeline that would feed Western Europe.

For Afghanistan, the project would provide crucial development revenue and gas for industrial enterprises. According to Afghanistan's 2008 National Development Strategy, the pipeline could generate \$160 million a year in transit fees for the country, an amount equivalent to half of its national revenue. As Afghanistan's largest development project, TAPI would considerably relieve the international community from the burden of economically sustaining the war-torn country. It will generate jobs and dissuade at least a portion of the Afghan population from poppy cultivation and heroin production, especially its hub in Helmand, one of the crossing points for TAPI.

Pakistan currently faces an acute energy crisis, with frequent and long power breakdowns creating social chaos and political instability. Pakistan's natural gas reserves are currently estimated to be 0.89 tcm, and they are fast depleting in the face of galloping domestic demand for natural gas. It is estimated that the country may have to meet 70 per cent of its gas demand through imports by 2030. TAPI will help the country tackle an aggravating energy crisis, besides generating considerable national revenue in transit fees. As to how much India will benefit from the project is clear from the rapid pace of its current economic growth, which cannot be sustained without the availability of greater energy supply in future. India imports nearly 25 per cent of its gas needs, which could rise to 50 per cent within the

next ten years, unless new domestic sources of energy are developed. Its lack of geographical proximity with Central Asia, unlike China, means the only viable land route for the supply of natural gas from Central Asia has to pass through Pakistan.

The future value of TAPI for the signatory states is not limited to the afore-mentioned economic benefits alone, the mutually beneficial economic cooperation triggered by this pipeline could overtime produce a peace dividend that a region lived by billions suffering from poverty and conflict earnestly needs. TAPI would improve relations between India and Pakistan, which have fought wars and faced tensions caused by cross-border terrorism. The project would further consolidate cooperative ties between Pakistan and Afghanistan, which are uniquely connected to each other through geography, ethnicity and history. The success of TAPI could also in the long run broaden the scope of Central Asian-South Asian integration, creating a single security community, thereby eliminating the very reason for conflict and war in the region.

It is primarily for this reason that the project enjoys wholehearted support of the world community. Almost all of the international donors meetings on Afghanistan have underscored its significance for “boosting stability across the war-torn region,” as US deputy Assistant Secretary of State Susan Elliott said at an energy conference in Ashgabat in November. The United States has consistently backed the pipeline project from the start. Even while Taliban were in power, the Clinton Administration extended its support to Unocal Corp, the Texas-based consortium of oil companies, as it competed with the Argentinean rival, Bidas Corp to win over the Taliban regime. Soon after the Taliban downfall, the Bush Administration encouraged Turkmenistan, Afghanistan and Pakistan to revive the project in May 2002. The Obama Administration has likewise provided sustained support for TAPI.

Thus, unlike the shadowy pipeline politics of the Taliban era, the almost decade-long move to realize TAPI is truly consensual in character, with the four signatory states desiring to reap the benefits of energy-centric regionalism and external players involved in the region perceiving the broader peaceful outcome of energy-driven cooperation in the region. Also important to note is the fact that the project is the brainchild of Asian Development Bank (ADB). The final TAPI agreement draws heavily on a feasibility study that ADP was tasked in July 2002 to prepare and which was unveiled at the April 2008 meeting of the four

signatory states' energy ministers in Islamabad. Accordingly, the pipeline is to be built and operated by a consortium of national oil companies from the four countries, besides foreign companies willing to join and finance the project. ADB will provide 30 per cent of the construction cost.

That Asia's largest inter-governmental development institution is TAPI's chief financier makes it viable for investment by international energy firms. The consistency and patience which states of the region with due international support have shown in their pursuit of the pipeline project offers them an additional guarantee in this regard. For the four signatories of TAPI, negotiating gas sale-purchase agreements until April may not be a problem. So may be the case once the three recipient states start to negotiate separate tariffs with Turkmenistan and the consortium of local and foreign companies bearing 70 per cent of the project cost.

Iran-Pakistan Pipeline Project

While India is a part of TAPI, it opted out of another important regional pipeline projected originally called the Iran-Pakistan-India Pipeline. The project was symbolically referred to as "peace pipeline" for its real potential in helping resolve the lingering disputes between India and Pakistan through creating mutually conducive overriding economic interests. For several years, India and Pakistan negotiated with Iran for this project to bring Iranian gas to their countries. With an estimated capital cost of \$7.5 billion, the pipeline will be similar in cost to Turkmenistan-Afghanistan-Pakistan-India pipeline project.

The Petroleum ministers of India and Pakistan met in Islamabad in April 2008 (just after the Turkmenistan-Afghanistan-Pakistan-India pipeline project meeting) to resolve a pricing issue and clear the way for signing agreements; and President Ahmadinejad of Iran visited Islamabad and New Delhi the following week for talks on the pipeline. After that, India oscillated on the project and then made the Mumbai attacks of November 2008 an excuse to shun the deal. In May 2009, Iran and Pakistan went ahead and signed an initial agreement, without India. Russia's Gazprom has expressed willingness to help build the line, most recently in January 2010. Earlier Iran and Pakistan had proposed that China also joined this project. China has officially expressed interest in becoming a part of this project. Iran's

foreign minister, Manouchehr Mottaki, affirmed in February 2010 that China is keen to join the project.

In June 2010, Islamabad and Tehran finally agreed to start implementing the project, under which Iran will supply 750 million cubic feet a day of gas to Pakistan for 25 years from late 2014 onwards. Pakistan is already suffering serious energy shortages, with an electricity shortfall of over 3,000 mega-watts. Only 60 per cent of Pakistani households currently have electricity, and only 18 per cent have access to pipeline gas for heating. In short, Pakistan needs the pipeline project, which is scheduled to be completed within five years, as well as Turkmenistan-Afghanistan-Pakistan-India pipeline project.

Pakistan as Trade and Energy Corridor for China

Natural gas is one option which China is pursuing—as, by 2025, Chinese demand for natural gas is forecast to double from 100 Billion Cubic Meters per year to about 210 Billion Cubic Meters a year, requiring that China import about 35 per cent of its total natural gas needs. The Iran-Pakistan gas pipeline project, if it is eventually extended to Xinjiang province of China, will be one additional route.

The Gwadar Port is the first step towards fulfilling Pakistan's ambition of becoming a Trade and Energy Corridor (TEC) for China, which will one day help ship Persian Gulf oil from Gwadar overland through Pakistan to China. China bankrolled the \$200 million port and plans to put billions more into railways, roads, and pipelines linking Gwadar to China. With its first phase of deep sea section completed in 2007 and the second phase already in progress, the port once fully operational will provide an overland energy corridor connecting the Middle East to Xinjiang, China's future energy base. That will cut transport by 12,000 miles, shaving a month off the journey's time and 25 per cent off the fees. For Pakistan, Gwadar will generate an estimated amount of \$60 billion a year in transit fees in 20 years' time.

Given that, it makes logical sense what Pakistan wants to play the role as a TEC for China. China is Pakistan's time-tested ally and the two countries have pursued a multi-dimensional strategic partnership since the early 1960s. This partnership has gained momentum in recent years, as the two countries have expanded their ties beyond traditionally defense field to

economic sphere. Pakistan knows very well that the infrastructure for the TEC requires multi-billion dollar financial commitments, for which China alone has the interest and the capacity. China may not have been quick to meet Pakistani expectations in this regard. However, its support and participation in the infrastructural projects in Pakistan associated with the TEC cannot go unnoticed.

China's commitment to the construction of Phase II of Gwadar port and the new international airport at Gwadar, besides up-gradation of the Karakoram Highway and interest expressed by Chinese companies in investing in an oil refinery and storage facilities are some of the indicators affirming China's deep interest in this regard. As is the case with the aforementioned two gas pipeline projects, if successfully realized, the TEC would have a profound impact on regional integration and would help in creating a web of regional interdependencies. Not only that, it would impact on the resolution of conflicts in the region.

Three Major Challenges

The three-pronged process that should eventually make Pakistan, as well as Afghanistan (insofar as TAPI is concerned), as an energy corridor for the regional states and the world at large currently faces three important challenges, including continuing tension in US-Iranian ties, Pakistan's unabated rivalry with India and, most importantly, the terrorism and insurgency-ridden security quagmire in Afghanistan and its fallout in Pakistan.

The first challenge pertains to Iran-Pakistan gas pipeline project. The United States has not vocally objected to this project, despite the fact that its hostile relationship continues unabated during the less than two years of Obama Administration. Since Pakistan is also pursuing a strategic relationship with the United States, it would suit Pakistan's interest if there is some headway in US-Iranian ties in future. For this, the Iranian regime has to positively respond to the overtures made by the US leadership. And, for its part, Washington also needs to be consistent in reaching out to Tehran. The Iran-Pakistan gas pipeline project, as stated above, will contribute to regional integration and peace, which the United States and the rest of the international community also desire for South Asia.

Pakistan's continuing rivalry with India poses another obstacle to the country's emergence as energy corridor for South and Central Asia, and the rest of the world. The peace process between the two countries has remained mostly stalled due to instances of terrorism in India, most importantly the 2008 Mumbai terror attacks. New Delhi used that terrorist event as a pretext to walk out of the pipeline deal with Iran, even though the Indo-US nuclear deal with the United States, which entered into force in 2008, is often cited as a major reason in this regard. Whatever the truth, it is important for India and Pakistan to resolve all the outstanding issues, including the Kashmir dispute, for the sake of successful regionalism in South Asia and its energy-centric integration with Central and West Asia.

Perhaps the most important handicap in the realization of Pakistan as an Energy Corridor option is the continuing war in Afghanistan and the accompanying insecurity in Pakistan and the region. This challenge, in fact, prevents all the three above-mentioned initiatives or opportunities from being realized. That explains why Pakistan, in particular, is so much interested in an early resolution of the Afghan conflict through political reconciliation.

In fact, Pakistan's interest in the stability of Afghanistan since the Soviet fall in 1991 can be better explained by using the geo-economic framework. It is quite unfortunate that this interest has mostly been explained through the so-called "strategic depth" notion, which has become redundant after the nuclear tests of 1998. When the Central Asians became independent, Pakistan desired to revive old cultural and economic links with them, and its excitement about the pipeline from Turkmenistan was motivated by simple the quest for becoming an energy corridor, which remains as consistent as ever. However, such an assessment will remain overtly optimistic as long as Afghanistan and Pakistan are plagued by terrorism-ridden insurgency, with ripple effects in the region. After all, the pipeline needs to be secured during the construction phase as well as in the initial years of its operation.

TAPI is not the only pipeline project facing security hazard. Similar worry was expressed regarding the Baku-Ceyhan gas pipeline agreement when it was concluded in 1989. The pipeline had to pass through south-eastern Turkey in the grip of Kurdish terrorist insurgency. But, then, the states involved with due support from external players backing the project did not waver. Eventually, not only the originally agreed gas pipeline was laid, it was later accompanied by an oil pipeline.

As for tackling the security issue in TAPI's case, NATO has recently decided to hand over security responsibility to Afghanistan by 2014, a year before the pipeline is required to start transporting the gas. The Afghan government has committed only 5,000 soldiers to guard the pipeline, which may not be a sufficient number. Securing the portion of the pipeline passing through Pakistan may also be problematic, given the recurrent attacks on NATO supplies through the country in recent years.

What is the solution then? Of course, in Afghanistan's case, the Afghan troops can be mustered up with an international security component, operating purely in non-combat role even beyond 2004. As for Pakistan, its security establishment can be expected to be more vigilant in guarding a project that will be so crucial to the country's economic viability. But what about Taliban, and their insurgency and terrorism, constituting the principal security hazard to first laying down the pipeline and then operating it? If defeating Taliban-led insurgents militarily is not a workable option, and giving in to their demands is morally unacceptable, then what is the possible via media for addressing the security issue facing TAPI?

On their own, Taliban and their extremist affiliates cannot be expected to voluntarily stop doing what they are best at: kill unarmed civilians and unlawfully fight armies. However, the pipeline itself can be a panacea for regional insecurity, if the productive trend it has set—away from geo-politically rooted rivalries towards geo-economically grounded cooperation—gains further momentum, especially in the case of India and Pakistan.

Consequently, if Pakistan abandons its so-called 'strategic depth' policy towards Afghanistan—the presence of Taliban safe havens in its tribal territory and their role in Afghan insurgency being a direct implication of this policy—then this will help defeat the Afghan insurgents and, in turn, address the principal issue of security facing the pipeline project. India-Pakistan rivalry over instances of cross-border has been a major distraction in the US-led war in Afghanistan since it began over nine years ago. TAPI is the first concrete cross-border project the two countries have jointly put their signatures on. If India remains committed to the deal, then Afghanistan can be spared of Indo-Pak proxy war and Pakistan may not have to bother about the security implications of another Mumbai-like terrorist attack in India.

If Pakistan does not feel insecure because of the Indian role in Afghanistan, and if Pakistan's regional outlook is based on self-perception of being an energy corridor in the region, then there is no reason why its security establishment should continue to pursue a dual approach of leniency towards terrorist-insurgent organizations attacking India and Afghanistan and toughness towards the ones attacking Pakistani soldiers and civilians. To conclude, TAPI's real significance lies in its potential to reshape the security discourse in a zone of conflict, away from geo-politics to geo-economics. Its completion will go a long way in promoting peace and prosperity in South and Central Asia. The international community must continue its full support to the project, especially prodding India and Pakistan to continue building upon the inherently productive trend in their ties set by the pipeline deal.