

US opposes Iran-Pakistan gas pipeline

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Despite opposition from the US, Pakistan signed an agreement with Iran on June 13 to go ahead with a \$US7.6 billion gas pipeline between the two countries that will provide a desperately-needed supply of energy to Pakistan from 2014. The deal cuts across Washington's efforts to isolate Iran economically through UN Security Council sanctions and its own unilateral penalties against Tehran's nuclear programs.

The agreement signed between the Iranian Gas Export Company and the Pakistan Inter State Gas Limited will provide 21.5 million cubic metres of gas daily to Pakistan. The pipeline will run from Iran's large South Pars gas field. Islamabad will carry out a feasibility study over the next year for its section of the pipeline before beginning construction.

US special envoy to Pakistan and Afghanistan, Richard Holbrooke, has warned that the pipeline agreement could fall foul of Congressional legislation aimed at penalising foreign companies doing business with Tehran, including those engaged in Iran's energy sector. He told the media on June 20 that it would be "a disaster" if "an agreement was reached which then triggered something under the law."

The US has been pressing Pakistan since January to drop the plan. India, which was also to have been involved, has already done so. Holbrooke told Petroleum Minister Syed Naveed Qamar the US would assist Pakistan in obtaining Liquefied Natural Gas (LNG) and electricity from Tajikistan via Afghanistan if it abandoned the Iranian pipeline project. To date, Islamabad has not backed down.

President Obama last week signed into law the Comprehensive Iran Sanctions, Accountability, and Divestment Act (see: "Harsh new US penalties against Iran") that could potentially impact heavily on Pakistan and Pakistani companies. Under the legislation, the US can bar foreign companies from the American financial system and markets if they continue to do business with black-banned Iranian entities, sell refined petroleum products to Iran, or

are involved in the energy sector.

The imposition of penalties is not automatic under the US legislation, but it is not clear whether President Obama will provide Pakistan with a waiver. Any attempt by Washington to punish Pakistani companies involved in the pipeline deal will only compound an already fraught relationship. The Obama administration has pressed Islamabad to wage a proxy war against Islamist fighters in Pakistan's border areas as part of intensified efforts to shore up the US-led occupation of neighbouring Afghanistan. Much-needed US economic aid has been tied to these continuing Pakistani military operations.

The Pakistani government does not want a confrontation with the Obama administration. At the same time, it has to address the country's severe energy shortages. Prime Minister Yousuf Raza Gilani told the media on June 22 that while the country was bound by UN sanctions on Iran, it was "not bound to follow" unilateral US measures. Last week Foreign Minister Shah Mehmood Qureshi confirmed that the "Pakistan-Iran gas pipeline project had been finalised despite problems and pressures."

Pakistan needs an estimated electricity generation capacity of 4,000 to 5,000 MW greater than the present 16,500 MW. Industry has been badly hit by rolling electricity blackouts that have worsened during the hot summer months. Government-imposed power cuts of 8 to 12 hours a day have become the norm, with an increasing number of unannounced cuts. Public anger over the lack of electricity has boiled over into protests in many parts of the country, some of which have blocked main roads and led to violent clashes with police.

The country's 2008-2009 Economic Survey released with the budget last month noted: "[T]he cumulative effect of the energy crisis on the economy is estimated at upward of 2 percent of GDP during 2009-2010 alone." The impact is particularly significant as Pakistan's economic growth slumped to 2 percent for 2008-09 as a result of the global

downturn and according to World Bank estimates will only reach 3.7 percent for 2009-10.

Pakistan is under pressure from the global financial markets to slash its public debt and budget deficits. According to the country's central bank, the total debt to GDP ratio hit 61 percent last month, crossing the 60 percent ceiling mandated by the Fiscal Responsibility and Debt Limitation Act. The external debt to GDP ratio is 30 percent—a growing portion of which is to the International Monetary Fund.

By proceeding with the Iranian pipeline, Islamabad can posture as taking a stand against US pressure. Having complied with every US demand to intensify military operations against Islamist insurgents, the government is widely regarded as a stooge for Washington. In addition to unleashing the Pakistani military, Islamabad has tacitly allowed the US to conduct unmanned drone missile strikes inside Pakistani territory that have killed scores of civilians.

The Pakistani government is coming into conflict with the US on another energy front. Beijing and Islamabad have announced plans for China to build two nuclear power reactors in the province of Punjab. The agreement is controversial as Pakistan has developed nuclear weapons and has refused to sign the Nuclear Non-Proliferation Treaty (NPT). The 46-nation Nuclear Suppliers Group, which includes China, is barred from providing nuclear technology or fuel to any country that has not signed the NPT.

The US has provided a precedent by signing a bilateral agreement with Pakistan's regional rival, India, that circumvents the NPT. Under the India-US nuclear accord, India can purchase commercial nuclear reactor technology and fuel without having to sign the NPT or subject its military program and nuclear arsenal to any scrutiny. Under pressure from Washington, the Nuclear Suppliers Group agreed to grant India an exemption.

After pressing for a similar deal from Washington without success, Pakistan has turned to China, a longtime ally against India, for access to nuclear technology and assistance. Far from granting an exemption for Pakistan at its meeting in New Zealand last month, members of the Nuclear Suppliers Group called on China to give more details of its deal with Pakistan. While the US did not openly object to the Pakistan agreement, the British government declared that “the time is not yet right for a civil nuclear deal with Pakistan.”

These manoeuvres underscore the hypocrisy and cynicism surrounding the US-led campaign. Iran is a signatory to the NPT and denies having plans to build nuclear weapons. All of its nuclear facilities are subject to regular inspections by the International Atomic Energy Agency. Yet Iran is targeted with increasingly harsh sanctions and repeated threats of military strikes. India and Pakistan—both US allies—have refused to sign the NPT and have built nuclear weapons, but are being offered nuclear technology and fuel.

The US is exploiting the nuclear issue as a means of pressuring Tehran and establishing a regime more compliant with US economic and strategic ambitions to dominate the crucial energy-rich regions of Central Asia and the Middle East. China's nuclear offer to Pakistan is another indication of the growing rivalry of the major powers—particularly Washington and Beijing—in this sensitive region.

China is heavily involved in more than 120 other projects in Pakistan. In return, Pakistan has allowed China to build port facilities at Gwadar in Baluchistan. The port is part of Beijing's efforts to secure its sea routes from Africa and the Middle East that are vital to the transport of energy supplies and other raw materials for the Chinese economy.

China is also attempting to secure alternative land routes to bypass the Malacca Strait, which is vulnerable to US naval power. Beijing signed a deal in June with Burma for an oil and gas pipeline from Burmese ports to southwest China. It has expressed interest in extending the Iran-Pakistan pipeline to China. Another possibility would be a pipeline from the port of Gwadar through to southern China.

The growing influence of China in Pakistan is regarded with suspicion and hostility by India as well as the US. New Delhi's decades-old border dispute with Beijing is still unresolved. Over the past decade, India has secured a strategic partnership with the US, which is keen to use it as a counterweight against China. However, India is concerned that the US reliance on Pakistan to stabilise its Afghan occupation is shifting the balance back in favour of Islamabad. China's involvement only adds to the tensions in an already volatile situation in a key strategic area of the globe.



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