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IP project

Signed in 2010 and launched in 2013, the long-awaited pipeline deal envisaged the supply of 750 million to a billion cubic feet per day of natural gas for 25 years from Iran's South Pars gas field to Pakistan to meet the neighboring country's rising energy needs. The pipeline was to stretch over 1,900 kilometers - 1,150 km within Iran and 781 km within Pakistan.

Iran has already invested $2 billion to construct the pipeline on its side of the border, making it ready to export. Pakistan, however, did not begin construction and shortly after the deal said the project was off the table for the time being, citing international sanctions on Iran as the reason.

Iran at the time responded by saying that it carried out its commitments and expects Pakistan to honor its own, adding that Pakistan needs to pick up the pace of work.

In 2014, Pakistan asked for a 10-year extension to build the pipeline, which expires in September this year.

Pipeline key to both countries

Iran has the world's second-largest gas reserves after Russia but sanctions by the West and Pakistan's construction delays have slowed its development as an exporter.

In the other hand, Pakistan, whose domestic and industrial users rely on natural gas for heating and energy needs, is in dire need for cheap gas with its own reserves dwindling fast and LNG deals making supplies expensive amidst already high inflation.

More than 40 million people remain without access to electricity in Pakistan, while businesses experience productivity losses due to power shortages. According to National Electric Power Regulatory Authority's 2022 yearly report, Pakistan's total installed power generation capacity is 43,775 MW, of which 59% comes from thermal (fossil fuels), 25% from hydro, 7% from renewable (wind, solar and biomass), and 9% from nuclear. The country has been trying to cut down on using furnace oil for power generation and boost natural gas-fired electricity production.

In March, Islamabad said it would seek a US sanctions waiver for the gas pipeline. However, later that week, the US said publicly it did not support the project and cautioned about the risk of sanctions in doing business with Tehran.

Pakistan on April 26 again disclosed that it is actively communicating with the United States regarding its energy requirements.

Great opportunity for Iran

In 2015, Pakistan had about 25 million cubic feet of gas reserves, but due to heavy reliance on gas by its industries, the country started importing gas for the first time. Therefore, completing the Peace Pipeline presents a significant opportunity for Iran to address Pakistan's growing energy needs.

By 2021, official reports indicated that Pakistan had imported over 7 million tons of liquefied gas, with the majority coming from companies like Qatar Energy, ENI, and Gunvor, based in Singapore. Despite these substantial imports, Pakistan continues to face energy shortages.

Currently, a large portion of urban household consumption in Pakistan relies on liquefied gas cylinders, while industries primarily use diesel and gas. To meet its energy demands, Pakistan requires increased gas imports and investments in gas production. Strengthening bilateral relations and attracting foreign investments will not only help Pakistan address its energy needs but also enable Iran to boost its foreign exchange earnings.

Political significance

The completion of the pipeline and improvement of economic relations will not only increase the Iran's foreign exchange income but also potentially thwart US policies aimed at removing Iran from the oil and gas market. Additionally, Iran can benefit from Pakistan as a bridge to accessing East Asian markets. Originally, the deal also involved extending the pipeline to India, but Delhi later dropped out of the project.

Exporting fuel

Pakistan imports about $25 billion worth of fuel, with Iran's share not even reaching $600 million. According to official statistics, the share of Iran's mineral fuel exports in Pakistan is nearly 2%. However, considering fuel smuggling from Iran to Pakistan, the eastern neighbor's fuel demand from Iran will be more than 15%.

Despite the exact amount of gasoline and diesel consumption in Pakistan not being available, recent reports from Pakistan's intelligence service indicate that nearly 30% of vehicle fuel is supplied through Iran. This amounts to over 2.8 billion liters per year (around 5.7 million liters daily) being smuggled from Iran to Pakistan.

Iran needs to change its fuel pricing policies to hike prices to match with those of neighboring countries to minimize fuel smuggling and boost its fuel export to increase its share of the Pakistani energy market.

Boosting cross-border employment

In total, the 900-kilometer border with Pakistan has created excellent conditions for production and trade. Sistan and Baluchestan Province is recognized as one of the most deprived provinces in the southeast of Iran with an unemployment rate of over 10%. Therefore, establishing industries and manufacturing units in this region will lead to a reduction in smuggling, security threats, and economic growth.

However, ensuring the security of the Iran-Pakistan border requires cooperation from both sides. Following an escalation of cross-border tensions over Iran's counter-terrorism operations in January, Pakistan has promised to take further measures improve border security.

IRNA, Reuters and Pakistan's Dawn have contributed to the statistical data to this article.

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