

**IRAN-PAKISTAN-INDIA GAS PIPELINE: THE IRANIAN  
PERSPECTIVES, 1993-2005**

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**A. ADAHRII**



**CENTRE FOR WEST ASIAN AND AFRICAN STUDIES  
SCHOOL OF INTERNATIONAL STUDIES  
JAWAHARLAL NEHRU UNIVERSITY**

**NEW DELHI-110067**

**2006**



CENTRE FOR WEST ASIAN AND AFRICAN STUDIES  
SCHOOL OF INTERNATIONAL STUDIES  
JAWAHARLAL NEHRU UNIVERSITY  
NEW DELHI - 110 067, INDIA

Phone : 26704372  
Fax : 91-011-26717586  
E-mail : cwaas\_office\_jnu@yahoo.co.in

July 2006


**DECLARATION**


I declare that the dissertation entitled "**Iran-Pakistan-India Gas Pipeline: The Iranian Perspectives, 1993-2005**" submitted by me for the award of the degree of Master of Philosophy of Jawaharlal Nehru University is my own work. The dissertation has not been submitted for any other degree of this University or any other university.

  
A. Adahrii

**CERTIFICATE**

We recommend that the dissertation be placed before the examiners for evaluation.

  
Chairman  
Centre for West Asian and African Studies  
SIS, JNU, New Delhi-110067  
Prof. Girijesh Pant  
Chairperson, CWAAS

  
Prof. Gulshan Dietl  
Supervisor  
Centre for West Asian & African Studies  
School of International Studies  
Jawaharlal Nehru University  
New Delhi-110 067 (India)



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**A. Adahrii**

## GLOSSARY OF ABBREVIATIONS USED

bctfd- billion cubic feet of gas per/a day

bctmd- billion cubic metre of gas per/a day

bctfd- billion standard cubic feet of gas per/a day

bctmd- billion standard cubic metre of gas per/a day

BCF- Billion Cubic Feet

BCM- Billion Cubic Metre

BHP- Broken Hill Proprietary

BLF- Baloch Liberation Front

CBM- Confidence Building Measure

CIA- Central Intelligence Agency

CNG- Compressed Natural Gas

CNN- Cable News Network

ECO- Economic Cooperation Organisation

EU- European Union

FDI- Foreign Direct Investment

GAIL- Gas Authority of India Limited

GCC- Gulf Cooperation Council

GDP- Gross Domestic Product

HRD- Human Resource Development

IAEA- International Atomic Energy Agency

IEA- International Energy Agency

ILSA- Iran Libya Sanctions Act of 1996

IOC- Indian Oil Corporation

IPIS- Institute for Political and International Studies

IT- Information and Technology

JWG- Joint Working Group

Km- Kilometre

LNG- Liquefied Natural Gas

mBtu- million British thermal unit

MCF- Million Cubic Feet

mcfd- million cubic feet of gas per/a day

MCM- Million Cubic Metre

mcmd- million cubic metre of gas per/a day

MoU- Memorandum of Understanding

mscfd- million standard cubic feet of gas per/a day

mscmd- million standard cubic metre of gas per/a day

NaM- Non-aligned Movement

NIGC- National Iranian Gas Company

NIGEC- National Iranian Gas Exporting Company

NIOC- National Iranian Oil Company

OIC- Organisation of Islamic Conference

PPL- Pakistan Petroleum Limited

PTA- Preferential Trade Agreement

RIL- Reliance India Limited

SAP- Structural Adjustment Programme

SMBC- Sumitomo Mitsui Banking Corporation

TCF- Trillion Cubic Feet

TCM- Trillion Cubic Metre

UN- United Nations

UAE- United Arab Emirates

UNSC- United Nations Security Council

US- United States

USSR- Union of Soviet Socialist Republics

WMD- Weapons of Mass Destruction

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# *Chapter I*

## Chapter I

### INTRODUCTION

The economic growth of a country can expand energy demand in various ways. In the industrial sector, increased levels of production require an increase in the use of energy as an input factor. In the transportation sector, energy demand grows as income growth brings about an increase in the number of vehicles. In addition, income growth in developing countries can often promote shifts in fuel use from traditional energy like wood, charcoal, and animal residue to commercial energy like oil, and natural gas. Thus, energy demand grows in every sector as economic growth and development takes place.<sup>1</sup> Gas consumption will increase by three-quarters between 2003 and 2030. The share of gas in the global energy demand will increase from 21 percent in 2003 to 24 percent in 2030- mostly at the expense of coal and nuclear energy. Gas resources can easily meet the projected increase of global energy demand through the projection period, as proven gas reserves are now equal to 66 years of production at current rates. In North America and Europe, natural gas had a major impact on the balance of energy in the last two decades. In 2000, North America with 5 percent of the world's reserves produced nearly 32 percent of the world's gas. China, India, and other East Asian countries are emerging as increasingly gas consuming countries.

While there are other factors such as ideological consideration and national objectives, it is now accepted that economic factors play a key role in determining relations between (and amongst) states. In the phase of globalisation when industrialisation and new technology are taking place, both the developed and the developing countries are rushing to acquire ownership of various oil and gas projects in different parts of the world. An unprecedented need for energy is now driving nation's foreign policy. This has given a new twist to the importance of political and economic

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<sup>1</sup> Ken Koyama (1997), "Growing Energy Demand in Asian Countries: Opportunities and Constraints for Gulf Energy Exporters", in The Emirates Center For Strategic Studies And Research, (ed.), *Gulf Energy And The World: Challenges And Threats*, Abu Dhabi: United Arab Emirates. p.47.

aspects of gas in recent times. Many countries have been encouraging their companies to secure exploration and supply agreements with states that produce gas. States, which need energy, have been courting the governments of the producing states aggressively by building goodwill and strengthening bilateral trade relations. China is a perfect example in this case. A booming domestic economy, rapid industrialisation, increased export processing, etc. are driving the country's energy search. China's energy search has serious implications for its foreign policy. Under its resource-based foreign policy, China has become quite assertive in seeking energy security to keep its economic juggernaut rolling. The country's resource based foreign policy is that it has little respect for the United States, because resources like oil and gas are found in countries, which the US abhors. The US sees China's energy policy as a new strategic challenge as the latter has signed energy deals with Iran, Sudan and Myanmar.<sup>2</sup>

In the context of India, changing the energy mix to reduce from a single source to multiple sources is being pursued. One such option is the natural gas. Incidentally, India does not have the equivalent reserves to meet its growing energy needs. Thus, in the past few years no other issue has dominated the news headlines as much as the Iran-Pakistan-India gas pipeline. The subject has prominently figured in the visits of dignitaries from Pakistan and Iran to India, as well as during the visits of Indian dignitaries to these two countries

Meanwhile, it has to be acknowledged that as the dynamics of the global energy have changed and so have the players. There is no doubt that as owner of the second largest gas reserves in the world and immense oil reserves, and with a unique geographical location, Iran occupies a rather favourable position among the producers of these resources. However, efforts to turn unfavourable short-term investment conditions into favourable long-term prospects require an active foreign policy of linking questions of national security to improved economic agreement in an era of globalisation. Given this fact, Iran has adopted a rationally designed and long-term energy policy as a

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<sup>2</sup> For a detailed essay on the issue, see David Zwiag and Bi Jianhai (Sept/Oct 2005), "China's Global Hunt For Energy", *Foreign Affairs*, New York, 84 (5): 25-38.

principle component of its domestic and foreign economic relations. This policy has close linkages with its foreign policy such as important national security issues.<sup>3</sup> This policy was framed in order to make possible such vital economic activities a reality such as the export of natural gas through transnational pipelines and ultimately create a zone in which a clear regional development path can emerge.

Next to Russia, Iran possesses the second largest gas reserves in the world, estimated at about 970.750 trillion cubic feet (tcf). After the discovery of South Pars gas field in 1990, Iran has adopted new policies to attract foreign capital and investment in the country. It has been keen to export large amount of its gas to Europe and South Asia through gas pipelines and LNG tankers. Iran therefore has proposed a number of gas pipelines and LNG deals. There are several reasons behind this programme - both economic and political.

Iran favours the use of gas in order to free up oil for export. Development of gas is also important for injection into oil fields, as oil production depends heavily on gas to maintain its production levels. The share of gas in the fuel mix in Iran has increased considerably. It increased from a mere 12 percent in 1971 to 50 percent in 2003. Natural gas consumption in Iran will grow at 3 percent per year, boosting its share to 55 percent in 2030.<sup>4</sup> In 2003, Iran marketed 78 billion cubic meters of gas (bcm), more than that of any other West Asian countries. Gross natural gas production was much higher at 124 bcm. Reinjection in oil fields accounted for about 35 bcm, and non-associated gas accounted for 75 percent of Iran's production.<sup>5</sup>

Primary demand for gas will grow by 2.1 percent globally, which means gas will overtake coal by around 2020, as the world's second largest primary energy source. Due to the depletion of oil production, gas would be the alternate source of energy in the future. Natural gas is also the cleanest and most efficient fossil fuel, a consideration that

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<sup>3</sup> Sohrab Shahabi and Farideh Farhi (Spring 1995), "Security Considerations and Iranian Foreign Policy", *The Iranian Journal of International Affairs*, Tehran, VII (1): pp.98-99.

<sup>4</sup> International Energy Agency (2005), *World Energy Outlook: Middle East and North Africa Insights*, Paris: France. p.345.

<sup>5</sup> *ibid.* p.364.

should weight heavily in a post-Kyoto world. Thus, Iran wants to export its gas and play its role in the world energy market.

Another important reason for exporting its gas is to reconstruct its economy ravaged by the prolonged Iran-Iraq war. Iran lost an estimated \$650 billion and a million lives in the war. Iran's economy has also been undergoing through a bad phase, with growing unemployment coupled with high inflation and low investment. Moreover, to contain US sanctions and its policy of isolating it, cooperation on energy with other countries has become strategically important. Strategically located for the transportation of the Caspian Sea and Central Asian gas to other parts of the world, Iran has been trying to launch different proposals to pipe its gas along with the Central Asian gas to the Indian Subcontinent and Europe. Given all these facts, natural gas development and its export has become an important objective for Iran.

In Iran, the oil and gas sector still provides over half of the central government revenues. Oil and gas revenues total about 80 percent of the country's export earnings. It will account for a significant portion of its economic expansion in the coming years and will help stimulate the expansion of the non-hydrocarbon sector. Thus, hydrocarbon business has lost none of its importance over the years.

Iran needs foreign investment and capital to achieve the ambitious gas development programme and to become a major net exporter. Iran's policy gives priority to the development of joint fields through the 'buy-back' arrangement. Some foreign companies have invested in Iran's gas fields. However, the US sanctions have adversely affected this industry. Its production was below the expected capacity in the past years. Nevertheless, in recent years Iran has signed gas pipeline agreements and LNG deals with European and Asian countries to develop and modernise its gas and to export it at a larger scale.

It is widely accepted that gas will be the primary energy in the future. And it is no wonder that the increasing demand for energy in Europe and Asia provide huge markets

for gas rich Iran. The idea of exporting gas from Iran to Europe and the Indian Subcontinent has been around since 1970s.<sup>6</sup> In the 1980s, Iran proposed the construction of a 56 inches gas pipeline to export its gas through Russia to Europe. In 2002, Iran and Greece signed an agreement, which calls for extending the Iran-Turkey natural gas pipeline into northern Greece and then to other parts of Europe. Iran-Turkmenistan and Iran-Azerbaijan gas pipelines are already in existence. Earlier, there was also a proposal to construct a 3,300 km pipeline from Bandar Abbas to Calcutta with a capacity of 36 bcm/y (billion cubic metre of gas per year). However, this proposal was abandoned and at present the Iran-Pakistan-India gas pipeline, which will pass through Pakistan's territory, overshadows it. Iran has also signed LNG deals and pipeline projects with countries such as, China, Austria, Russia, Armenia, etc.

However, agreement on energy security between a producer and consumer does not simply entail obtaining resources, as it also requires getting them home. The development of gas requires massive investment since the transportation costs of gas are quite high. Transportation of gas is the main obstacle to export gas especially due to distance. Gas is transported in two ways; through pipelines and LNG tankers (shipping). Gas pipelines are made of strong, large-diameter pipes that operate at high pressures. There are a number of compressor stations sited at strategic points to maintain its pressure.<sup>7</sup> LNG is natural gas that has been cooled to approximately minus 260 degrees Fahrenheit. LNG has a 610:1 volumetric advantage over its natural state and is much easier to store. However, LNG trade is capital intensive and technology intensive as it involves development of reserves, pipelines, liquefaction units, compressors and power plants.<sup>8</sup>

Thus, pipeline is more viable for transporting Iranian gas to Europe and the Indian Subcontinent. It will be more economical and will eventually attract the required capital, as there are sufficient gas reserves. However, political and regional issues as well as

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<sup>6</sup> Narsi Ghorban (Summer 1995), "The Evaluation of Recent Gas Export Pipeline Proposals in the Middle East", *The Iranian Journal of International Affairs*, Tehran, VII (2): p.450.

<sup>7</sup> Gulshan Dietl (2005), "Gas Pipelines: Politics and Possibilities", in I.P. Khosla (ed.), *Energy And Diplomacy*, New Delhi: Konark Publishers. p.76.

<sup>8</sup> *ibid.* p.77.

international strategic interests and rivalries can undermine pipeline projects. Transnational gas pipelines are difficult and complex since they involve different countries with different interests, which frequently bring on board substantial and complex political baggage of disharmony and discord. Besides, they pass through difficult terrains, and also politically and environmentally sensitive areas. Therefore, the implementations of pipelines require the mobilisation of huge financial and technical resources from international sources in an atmosphere of mutual trust and confidence. However, once implemented pipelines have several implications; there is a major political determination to increase political cooperation as pipelines are there to stay for years to come. Given these facts, the trilateral gas pipeline should be put in a broader context.

The Iran-Pakistan-India gas pipeline was conceived in 1989, but due to the strained relations between India and Pakistan, its execution has been delayed. However, it has been revived after India and Pakistan suspended their differences. The three countries have shown their resolve and interest to implement the project as it would be beneficial for all the parties involved. Of all the possible pipeline routes to supply gas from Iran to the Subcontinent, the Iran-Pakistan-India gas pipeline is the most promising, in terms of the size of gas reserves, the distance and the terrain to be traversed, the size of investment required, and the feasibility of the project. The future prospects from the pipeline for both the consumers (India and Pakistan) and the producer (Iran) have impelled them to increase bilateral relations. Iran has improved its relations with India and Pakistan, especially its trade has soared with India and it has been improving with Pakistan after the pipeline agreement was signed. Political contacts amongst the three countries have increased considerably through negotiations on the pipeline project. This development reflects that the three countries have shared perceptions on the project and it demonstrates that economic factor is playing a key role in influencing the relations amongst the three nations. It also explains the reality that economic relations between countries in the era of globalisations is changing and altering the face of the social and political landscape between and amongst countries.

It is obvious that the pipeline is a project, which would benefit all the parties involved. Energy security of India and Pakistan would be bolstered, which would boost their economic development. The pipeline would act as a confidence building measure between India and Pakistan. For Iran, it has lots to gain from the pipeline given its economic situation, the US sanctions and the international pressure over its nuclear deal. It would influence and enhance Iran's relations with India and Pakistan. In its efforts to forge new links with Asian countries to break the US containment policy, the pipeline would be the playing pole once it get materialised. Given the state of its relations with America, Iran does not have customers as other gas producing countries. European markets are flooding with Caspian gas, and the East Asian markets with Qatar and Oman's gas. There is competition from other regional suppliers to access Indian market. For these reasons, Iran is keen for the early implementation of the pipeline. Iran also believes that this pipeline would provide a viable means to transport the Caspian Sea and Central Asian gas to the Subcontinent.

Another central implication of the Iran-Pakistan-India gas pipeline is that of regional cooperation. Regional energy alliances have acquired a salience hitherto not contemplated. And this is true for gas as it is for oil. Many factors such as economic, geological, geopolitical and geo-strategic have contributed to its evolution. Markets are no longer regarded as reliable and infallible allies of nations in search of energy security. Global energy realignments point a pronounced shift towards regional sources of supply, buttressed by long-term political and economic relationship.<sup>9</sup> Thus, the Iran-Pakistan-India gas pipeline will play a crucial role for the three countries in a world that is decisively gravitating towards regional coalitions and groupings based on shared interests.

Furthermore, the project has to be seen in the context of the Iran-Libya Sanctions Act of 1996, and also the US opposition to the project. Unlike other laws, this Act mandates the President of the United States to impose secondary sanctions against

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<sup>9</sup> Sudha Mahalingam (2006), "Diversification and Energy Security", *The Hindu*, New Delhi, 30 March 2006.



foreign firms and investors. According to ILSA, the President could impose sanctions against any firm that invest more than \$20 million in a year in Iranian projects. The Act states,

“It is the policy of the United States to deny Iran the ability to support acts of international terrorism and to fund the development and acquisition of Weapons of Mass Destruction and the means to deliver them by limiting the development of Iran’s ability to explore for, extract, refine, or transport by pipeline petroleum resources of Iran.”<sup>10</sup>

America thinks Iran would use the revenues from its gas in sponsoring terrorism and fund the development of nuclear weapons. Thus, it is opposed to the proposed gas pipeline. However, as India and Pakistan have agreed to the Iranian proposal this would be a precedent for other countries to follow. The materialisation of the pipeline would pose a challenge to American policy of isolating Iran, and can potentially circumvent the economic sanctions.

The study “Iran-Pakistan-India Gas Pipeline: The Iranian Perspectives, 1993-2005” explores the economic and political prospects of the pipeline for Iran. It is a study about Iran’s energy policy and economic policies which have close linkage with its foreign policy. It argues that natural gas has become a vital factor in changing Iran’s economic and strategic interests. In reorienting its policy towards India and Pakistan, Iran has been guided by the objectives of security and economic growth. Therefore, the study makes an assessment of Iran’s policy towards India and Pakistan. It also traces the transition that has taken place in Iranian relations with India and Pakistan after it formally proposed the pipeline project in 1993. It is relevant here, to understand the importance of natural gas for Iran in the overall perspective of national development, stability and security. Thus, Iranian perspectives on the proposed pipeline project need to be looked objectively.

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<sup>10</sup> Congressional Record, Iran and Libya Sanctions Act Of 1996 (House of Representatives – June 18, 1996), [Online: web] Accessed 10 September 2005, URL: <http://www.fas.org/irp/congress1996-cr/h960618.htm>; p.H6469.

## *Chapter II*

## *Chapter II*

### **AN OVERVIEW OF IRAN'S FOREIGN POLICY**

#### **1. BACKGROUND**

The end of the Iran-Iraq war triggered several changes in Iran's regional and foreign policy. After the war Iran had to formulate a policy, which would be coherent and functional to its foreign policy and economic development. The primary goals of Iran foreign policy after the war includes: the restoration of stability to the Gulf region; further and faster reintegration into the capitalist system; greater participation in regional and global organisations such as the United Nations, Islamic Conference Organisation and Economic Cooperation Organisation; the re-establishment of economic as well as politico-military ties that existed between Iran and the West during the Shah's period; and also reducing the propensity of 'revolutionary' posturing.

Iran's foreign policy formulations after the war had been influenced to a large extent by external factors to Iran's own domestic imperatives such as the break-up of the Soviet Union, Iraq's military defeat, the emergence of new Transcaucasus and Central Asian states and the over-riding monolithic threat of the United States of America. Internally, there was tension stemming from the supporters of revolutionary radicalism and those who supported economic relations with the West in order to service domestic needs. Therefore, Iran was faced with a dual challenge – to provide immediate policies in reaction to events in Iran's regional environment and to develop long-term foreign policy strategies to encompass its relations with the world and come out of its isolation.

#### **2. 1989-97: RAFSANJANI PERIOD**

President Ali Akbar Hashemi Rafsanjani's objectives included; the reconstruction of the war-ravaged economy and the recovery of the ground lost in the

prolonged war to end Iran's regional and international isolation. Apart from these, military reconstruction and rearmament were the other priorities, which Iran pursued.

The exhaustion from a costly eight-year war demonstrated the difficulties of being revolutionary, forcing the Islamic Republic to suppress its revolutionary and ideological aspirations. Many of the top Iranian leaders publicly declared that the Islamic Republic should look towards reform as well as closer contact with the outside world in its second decade.<sup>1</sup> Therefore, a diplomatic offensive was launched to improve Iran's regional influence and to help bring about an environment conducive to economic reconstruction and unhindered development. However, the underlying strategic political environment remained negative. The level of distrust of Iran's intention was so great by the turn of the 1990s<sup>2</sup> due to the image of the Islamic Republic, which was firmly established during the traumas of the revolution, and also due to the resurrection of the Abu Musa and Tunbs dispute with the United Arab Emirates.<sup>3</sup> Faced with a new environment, Iran had to manoeuvre its foreign policy through a pragmatic approach.

As a first step in foreign policy reform, Iran made efforts to re-establish diplomatic ties with the Gulf monarchies, Egypt, Jordan and Tunisia. An improvement in relation with these countries was seen as a precondition to end Iran's diplomatic isolation and return of stability to the Gulf region. It was also seen to remove the need for a high-profile Western military presence in the region.<sup>4</sup> The absence of Western military in the region was seen to help Iran in reasserting its authority as the dominant power. But the worsening of Iraq and American relations added a new setback to its policy of bringing stability in the region. Iran was convinced that the United States and its allies were paving the way for the return of their forces in the region. The evidence of Iraq attempting to produce powerful new weapons added to its woes.<sup>5</sup> Nevertheless, Iran launched its diplomatic offensive aimed at enhancing and consolidating its regional influence through the isolation of

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<sup>1</sup> Anoushiravan Ehteshami (1995), *After Khomeini: The Second Republic*, London and New York: Rutledge. p.137.

<sup>2</sup> Alireza Ansari (2000), "Iranian Foreign Policy under Khatami: Reform and Reintegration", in Ali Mohammadi and Anoushiravan Ehteshami (eds.), *Iran and Eurasia*, London: Ithaca Press. p.38.

<sup>3</sup> *ibid.*

<sup>4</sup> Ehteshami, n.1, p.147.

<sup>5</sup> *ibid.*, p.151.

Iraq and the opening of the hitherto closed Arab doors. The first sign of improvement in Iran's relations with its neighbours became visible when the Gulf Cooperation Council (GCC) declared in its December 1990 summit in Qatar that they welcomed the prospect of further cooperation and Iranian participation in regional security arrangement.<sup>6</sup>

When the Madrid Peace Conference was held in October 1991, Iran took the risk of exploring the influence of 'Islamic issues' in the Arab world and placed itself at the heart of a new anti-Israel and anti-American coalition. A parallel conference (International Conference on the Support of the Palestinian Islamic Revolution) to the American brokered conference was held in Tehran to display its Islamic credentials. Iran was able to bring together an unlikely combination of anti-Madrid Peace process – Arab rejectionist forces and groups. This resulted in the recognition of Iran as an effective Islamic interlocutor.<sup>7</sup> However, it vitiated its image in the West as it created an impression that it was spreading Islamic radicalism.

Internally, the constitution was reformed to strengthen the executive. The first Five-Year Economic Plan (1989-93) was introduced in 1989. The primary aims were to reconstruct its economy, to reduce unemployment, to increase industrial productivity and to minimise the gap between the rich and the poor. The country adopted the structural adjustment programme (SAP) – the so-called 'Rafsanjani's Perestroika'.<sup>8</sup> By the end of the first Five-Year Plan, the Islamic Republic was successful in some of its quantitative objectives, but not all. Although the volume of its GDP increased in 1991 and reached the same of its 1977 GDP growth, the annual real incomes fell each year from 11.5 per cent in 1990/91 to 4.8 percent in 1993/94. However, by 1996/97, Iran's economy had shown improvement, with GDP growth expected to reach 5 per cent and inflation reduced to less than 30 per cent.

Another policy, which was given importance during Rafsanjani's presidency, was the military reconstruction of the country. A total of almost \$10 billion was

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<sup>6</sup> Ziba Moshaver (Winter 2003), "Revolution, Theocratic Leadership and Iran's Foreign Policy: Implications for Iran-EU Relations", *The Review of International Affairs*, Oxfordshire, 3 (2): p.289.

<sup>7</sup> Ehteshami, n.l, p.157.

<sup>8</sup> Jahangir Amuzegar (Spring 1997), "Iran's Economy and the US Sanctions", *The Middle East Journal*, Washington, DC, 51 (2): p.189.

allocated in its first Five-Year Plan for military-related expenditures. The defence sector was provided investment funds as well as resources for arms purchase from abroad. The Ministry of Defence and Armed Forces Logistics was established in 1989. After the disintegration of the Soviet Union, Iran started buying combat aircrafts from Russia, like the MiG-29s and other Russian-built aircrafts.<sup>9</sup> It was widely held that Iran also made an oil-for-arms deal with Ukraine, which involved the delivery of Supersonic Sunburst cruise missiles, MiG-29s, T-72 MBTs and S-300 air defence system.<sup>10</sup> But America increased its pressure by the early 1990s limiting Iranian military reconstruction and rearmament. Although Iran was able to get arms and technology from countries like Russia and China, the US pressure limited the sales of sensitive technology to Iran.

The end of the Cold War reduced Iran's ability to manoeuvre profitably between the East and the West. It had to consider the role, which the European Union (EU) had to play. Iran emphasised on the European Union as a counterweight to the United States. It expected the EU not to follow the United States approach.<sup>11</sup> Iran therefore, made efforts to promote and improve its relations with the EU.

This pragmatic approach adopted by Rafsanjani yielded results. The EU countries led by Germany conducted a substantial trade with Iran especially in oil and gas sector. Iran and Western Europe saw in each other potentials to be explored. Diplomatic ties with EU countries had been increased particularly with France. The French firm Total signed the deal, which the American firm Conoco had cancelled in 1995. This reflects a fundamentally new turn to increased trade between Iran and EU. Iran's assistance in freeing Western hostages held by the Lebanese Shia militants was the key to this rapprochement. While American pressure on Iran continued, the European Union began the so-called 'critical dialogue', which was meant to acknowledge US concerns in principle. The argument was that engagement rather than isolation would encourage Iran to moderate its radicalism.<sup>12</sup>

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<sup>9</sup> Ehteshami, n.1, p.177.

<sup>10</sup> *ibid.*

<sup>11</sup> Mohammad R. Saidabadi (2000), "Iran's European Relations since 1979", in Mohammadi and Ehteshami (eds.), n.2, p.65.

<sup>12</sup> Moshaver, n.6, p.294.

However, the success of Rafsanjani initiative was limited by the radicals at home, persistent problem with the US, the unsolved Rushdie edict and the assassination of Iranian dissidents in Europe. The 1992 bombing of Israeli-Embassy in Buenos Aires by Hizbullah and the 1994 bombing of the Jewish Centre in which Iranians were alleged to have been involved flared up tensions with the West. Tensions reached a new height in 1996 when the Khobar Tower in Saudi Arabia was bombed in which several Americans were killed. By 1997, when Rafsanjani's term was nearing its end, the verdict of the trial in Berlin of the Mykonos case was pronounced. High-level Iranian officials including Rafsanjani were proved to have been involved in the case. After the verdict, the European Union countries' ambassadors were withdrawn from Tehran and the ongoing 'critical dialogue' was suspended.<sup>13</sup> Therefore, it can be witnessed that relations between Iran and the European Union were by no means problem free due to the continued extremism by Iranian hardliners. Nevertheless, the European Union objection to the Iran-Libya Sanctions Act and the business ties that had been growing rapidly offered succour to the troubled relations.

The disintegration of the Soviet Union created an opportunity for Iran to promote relations with its northern neighbours. The potential threat that the Soviet Union posed to Iran was removed after the USSR disintegration. By 1993, Iran had displayed a coherent policy towards its northern neighbours. In October 1993, President Rafsanjani made his second trip to the region with a high-level delegation for seeking cooperation between Iran and the Central Asian countries. Iran also used the Economic Cooperation Organisation as a vehicle to advance its interest and addressed the existing tensions arising between Iran and Turkey following differences in the region.<sup>14</sup>

As pointed out, Iran was no longer threatened by communism after the Cold War, it took concrete steps to consolidate its relations with Russia. Perhaps, the separation of boundaries after the Soviet Union disintegration gave Iran greater confidence in dealing with Russia. Iran also expected Boris Yeltsin who was re-

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<sup>13</sup> *ibid*, p.295.

<sup>14</sup> Anoushiravan Ehteshami (2000), "Geopolitics Beckons: Hydrocarbons and the Politics of the Persian Gulf", in Mohammadi and Ehteshami (eds.), n.2, pp.97-98.

elected as Russian President to play a more active role in the region. While there was competition between Iran and Russia for influence in the newly emerged Central Asia and Transcaucasus states, it saw Russia as a counterbalance to the United States dominance in the region. In 1995, President Ali Akbar Hashemi Rafsanjani said in an interview that the promotion of Iran-Russia relations would serve the interest of both nations in finding solution to the regional conflicts (Central Asia and West Asia).<sup>15</sup> Iran also reinvigorated Russia's involvement in West Asia. During a visit to Damascus in April 1996 to discuss a ceasefire agreement between Israel and Lebanon, Iran's Foreign Minister argued that Russia along with France should be a signatory to any peace agreement between Israel and Lebanon.<sup>16</sup> The Iranian concessions to Russia and its friendly gesture paid dividends. In May 1995, President Yeltsin refused the United States request and went ahead with the \$1 billion sale to Iran of a light water nuclear reactor. In September the same year, Russia announced that it had signed another contract to build two more nuclear power reactors in Iran. Several Russian scientists started working in Iran by 1995, and Russia agreed to train Iranian University scientists in nuclear technology.<sup>17</sup> The rapprochement between Iran and Russia was also visible in the expansion of trade and the sale of Russian weapons to Iran. Therefore, a new chapter began in Iran-Russia relations by the early 1990s.

Even though Rafsanjani initiated diplomatic relations with several countries and reformed several policies in Iran, its overall achievements were limited. Economically, Iran was not able to achieve the expected results of development. Diplomatically, 'the critical dialogue' which was initiated by the European Union was suspended when he was about to vacate the presidency. The United States increased and tightened its pressure against Iran during his term. By 1997, when Rafsanjani's tenure was nearing its end, his foreign policy initiatives seemed to have lost the steam. Nevertheless, Rafsanjani's initiative created a platform for his successor to continue the process.

### **3. 1997- 2005: KHATAMI PERIOD**

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<sup>15</sup> Adam Tarock (June 1997), "Iran and Russia in 'strategic alliance' ", *Third World Quarterly*, Oxfordshire, 18(2): p.208.

<sup>16</sup> *ibid.*

<sup>17</sup> *ibid.*, p.211.



In 1997, a new beginning started in Iran's foreign policy after Seyyid Mohammad Khatami was elected as the president of the Islamic Republic of Iran. Unlike his predecessor he articulated clear and consistent domestic and foreign policies and seemed far better able to win both at home and abroad.<sup>18</sup> Khatami expressed his desire to see a more pluralistic economic and political environment within the country. His pragmatic approach consisted of moderation at home and reintegration of Iran into the international order.<sup>19</sup> His strategy was one of communication and co-optation targeted towards three vehicles of communication and ideological dissemination: expatriate Iranians, international media and the foreign intelligentsia.<sup>20</sup> Khatami's foreign policy principles were based on dignity, wisdom and prudence, policy of détente, and dialogue among civilisations.<sup>21</sup> He started with experiment and controlled reform focusing both the domestic and international situations.

Like his predecessor he was greeted by the ailing economy of the country. Relations with Iran's neighbours had to be brokered as there was overwhelming American presence in the region. Iran had to shake off the Islamic revolutionary posture. Fortunately for Khatami, the huge mandate that the people gave during his election and re-election made things easier for him. The radical factions, represented by the non-elected institutions also cautiously acceded to Khatami's foreign policy. Khatami was also fortunate because of the international events, which provided him an opportunity to promote his agenda. The persistent problems in Afghanistan and Iraq engaged the Americans with Osama Bin Laden and Saddam Hussein. The detonation of nuclear weapons by India and Pakistan diverted international concerns from Iran. These events placed Iran in a better position to manoeuvre its strategy.

'Dialogue among civilisations' was the hallmark of Khatami's foreign policy. A peaceful approach of conciliation rather than confrontation among religions,

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<sup>18</sup> Shaul Bakhash (2004), "Iran's Foreign Policy under the Islamic Republic 1979-2000", in L. Carl Brown (ed.), *Diplomacy in the Middle East: The International Relations of Regional and Outside Power*, London and New York: I.B. Tauris. p.254.

<sup>19</sup> *ibid.*

<sup>20</sup> *ibid.*

<sup>21</sup> Elaheh Koolae (2005), "Foreign Policy after Twenty-Five Years of the Revolution", in M. H. Ansari (ed.), *Iran Today: Twenty-Five Years After The Islamic Revolution*, New Delhi: Rupa & Co. p.281.

cultures and nations became the dominant discourse in Iran's foreign policy. Thus a new opportunity was created for other nations to rethink their attitude towards Iran.

The tangible results of this new approach came in 1997 during the summit of the Organisation of Islamic Conference (OIC), which was held in Tehran. Ayatollah Khamenei addressed the summit and said, "Iran poses no threat to any Islamic country." Its neighbours and other Islamic countries warmly received this message. More significantly, Saudi Crown Prince Abdullah attended the conference and persuaded other Islamic countries that Khatami was sincere and would keep his words regarding foreign policy moderation.<sup>22</sup> At the OIC meeting Khatami also told Yasser Arafat that Iran would acquiesce to any agreement acceptable to the Palestinians.<sup>23</sup> On the whole, the participation of a large number of high-level officials in the conference revealed that Khatami administration's conciliatory message attracted the international community and particularly Iran's neighbours.

Since the OIC summit in Tehran, Iran increased its cooperation with Arab countries around the Gulf region inspite of the Arab position that Iran occupies their Musa and Tunb Islands, and the ideological differences between Iran and the Arab states. The improvement of relations between Iran and Saudi Arabia invoke memories of an earlier regional axis to cooperate and coordinate economic and political issues. In 2000, King Fahd invited Ayatollah Khamenei to visit Saudi Arabia for Haj pilgrimage.<sup>24</sup> The invitation was a reflection of reciprocation from its neighbour. Senior ministerial visits between Iran and Saudi Arabia became a frequent affair. Relation with Egypt was improved considerably despite of its difference over Egypt's peace treaty with Israel. Iran's efforts to promote peace among different Kurdish factions were lauded by many countries. Improvement of relations with Turkey, Kuwait, and Qatar were also reflected in the process of the commencement of economic and political exchanges. Arguably, Khatami's 'détente' policy had resulted in improving Iranian relations with its neighbours.

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<sup>22</sup> As cited in Bakhsh, n.18, p. 255.

<sup>23</sup> *ibid.*

<sup>24</sup> Shah Alam (Dec 2000), "The Changing Paradigms of Iranian Foreign Policy under Khatami", *Strategic Analysis*, New Delhi, XXIV (9): p.1643.

Tehran had implied that an alliance among India, Iran and China could enable it to formulate policies free from Western pressure.<sup>25</sup> Thus, relations with China, India and Pakistan were improved remarkably. It established closer ties with China in the fields of economy, politics, arms trade, etc. President Khatami's visit to China in June 2000, demonstrates the growing desire to maintain closer relations between the two countries. Iran's relation with India was harmonious as they were traditional allies and did not have any outstanding dispute between them. Their relations exhibit patterns of continuity and gradual expansion both politically and economically. As far as relations with Pakistan were concerned, there were differences between the two countries, but they had common interests in economic cooperation and participation in joint ventures, rail and road links, border security of Balochistan and efforts to jointly combat narcotics trafficking in the Golden Crescent. These interests impelled Iran and Pakistan to forge closer bilateral relations.

Aware of itself as a key important player in the Transcaucasus and Central Asian region, Iran played a positive role in bringing stability to the region.<sup>26</sup> The most visible role, which Iran played in the region, was when it mediated as a peacemaker between Azerbaijan and Armenia over the Nagorno-Karabakh dispute, and also between the government of Tajikistan and the country's Islamic opposition.

Khatami's policy of moderation and the visible improvement in Iranian relations with its neighbours encouraged the European Union to start the 'critical dialogue', which was suspended. During his address to the UN General Assembly in 1998, Khatami declared that the Rushdie affair was 'completely finished' and gave the European Union a written commitment that the Iranian government would not enforce Khomeini's edict.<sup>27</sup> He also called for 'dialogue among civilisations' during his address. His assurance resulted in the re-establishment of Iran-EU ties. The 'critical dialogue', which failed with the former President Rafsanjani, turned into 'comprehensive dialogue' – part of which was the 'human rights dialogue'. The

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<sup>25</sup> Harish Chandola (13 April 1996), "Iran Seeking Asian Alliance", *Mainstream*, New Delhi, 34 (19): p.12.

<sup>26</sup> Moustafa Torkzahrani (Winter 1997/98), "Iran after Khatami: Civil Society and Foreign Policy", *The Iranian Journal of International Affairs*, Tehran, IX (4): p.507.

<sup>27</sup> Bakhsh, n.18, p.255.

'comprehensive dialogue' allowed discussion on a range of issues including:<sup>28</sup> areas of cooperation on trade and investment, energy, drugs and refugees; international issues on terrorism, human rights and arms proliferation; regional issues on Iraq, Gulf, Central Asia and the Arab-Israeli peace process. The resumption of the 'comprehensive dialogue' marked a new peak in Iran-EU ties especially in trade and investment. Many European countries started their investment in Iran's energy sector – oil and gas. In 1999 and 2000, Khatami visited several European countries including the Vatican for building closer ties.

However, difference on issues such as the Arab-Israeli conflict, human rights, women and the Iranian nuclear programme slowly crept into Iran-EU relationship showing signs of uncertainties. The abrupt end of the 'comprehensive dialogue' in June 2003 was an instance of such development. Moreover due to the pressure of the United States on the EU, many European countries became indecisive in their dealings with Iran. Despite of all these differences, the growing economic co-operation between Iran and EU enabled Iran to come out of its isolation.

#### 4. US SANCTIONS AND IRAN-US RELATIONS

The 1979 Iranian Revolution and the subsequent US-Embassy take-over by Iranian militants in Tehran marked a new chapter in the Iran-US relations. In January 1981, President Reagan during his inaugural address announced that 'fighting terrorism' would replace 'human rights' as the nation's primary foreign policy. The announcement coincided with the release of the American hostages held by Iranian revolutionary militants. Following the Embassy take-over the Americans consider Iran as a country, which sponsors terrorism and a threat to its interests in the Gulf region. Since then, Iran-US relations which had been very cordial took a dramatic turn engaging the two countries into continuous conflict – the American demonising Iran as the 'rogue' and 'an outlaw' state, and the Iranian depicting US as the 'Great Satan'.

The mistrust and confrontation between the two countries reached a new height after Bill Clinton came to power. Upon taking office, the Clinton

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<sup>28</sup> Moshaver, n.6, p.296.

administration stressed that it would contain Iran within a broader policy framework that casts both Iran and Iraq as 'rogue regimes' and seeks to keep both weak.<sup>29</sup> More precisely its policy towards Iran was defined in a letter addressing both Houses of Congress, Clinton had given three reasons why Iran should be contained, "Iran is sponsoring terrorism, it is opposing the Arab-Israeli peace process and developing Weapons of Mass Destruction."<sup>30</sup> Here, it is also important to note that there are several other reasons, which make the Americans obsessed with Iran. Economically, Iran gas reserves are second in the world and its significant oil reserves make it a pivotal player in the energy markets. Geographically, Iran is the transit route for oil and gas pipelines from Central Asia and the Transcaucasus region. Iran is also vital for US strategic policies in West Asia, South Asia and Central Asia.

In 1993, the US formally outlined the 'Dual Containment' policy targeted at Iran and Iraq as it considered these two Gulf countries to be a threat to its interest in the region. Though the US administration did not state explicitly its content, there was speculation among observers that the policy was intended to result in the overthrow of regimes in Iran and Iraq.<sup>31</sup>

In March 1995, President Clinton issued an order forbidding US companies investing in Iran's oil industry. The order prevented the US firm, Conoco from going ahead with the \$600 million agreement to develop two offshore oil fields. In April the same year, the administration banned all American trade with Iran. According to the US President's Executive order 12957 dated 18 March 1995, the reasons for the imposition of sanctions against Iran were the extraordinary threat to the national security, foreign policy and the economy of the United States of America.<sup>32</sup> The United States defines economic sanctions as non-military action that adversely affects the flow of goods, services, or financial assets to a specific foreign country in order to express US displeasure with that country's action.<sup>33</sup>

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<sup>29</sup> Kenneth B. Katzman (2001), "Iran: US Policy and Options" in Albert V. Benliot (ed.), *Iran, Outlaw, Outcast or Normal Country?*, New York: Nova Science Publishers, Inc. p.69.

<sup>30</sup> Dariush Akhavan Zanjani, (Spring 1997), "The Role and Position of Sanctions in US Foreign Policy", *The Iranian Journal of International Affairs*, IX (1): p.32.

<sup>31</sup> Katzman, n.29.

<sup>32</sup> Zanjani, n.30.

<sup>33</sup> M. Javad Zarif and Saeid Mirzaee (Spring 1997), "US Unilateral Sanctions Against Iran", *The Iranian Journal of International Affairs*, IX (1): p.5.

In response to President Clinton's accusations, President Rafsanjani answered to a correspondent of the American Broadcasting Corporation (ABC) during an interview. Asked if he could 'prove that President Clinton's accusations against Iran were baseless'.<sup>34</sup> President Rafsanjani replied, "In a court of law it is the accuser, not the accused, who must prove his allegations." He added, "Let the United States go to any international court and present its evidence in support of its allegations. We will then accept the court's determinations." On the other hand the Americans considered that Iran did not make any policy change on the three main allegations. It therefore, continued to keep sanctions in place, block Iran's access to international financial institutions. The G-7 especially Europe and Japan were pressured not to invest in Iran. The United States also made efforts to exclude Iran from pipeline projects to carry oil and gas from Central Asia and Azerbaijan to market abroad. In July 1995, the US patrolled the Gulf and started policing Iran with the formation of the 'Fifth Fleet'.

The anti-Iranian wave got momentum and on 4 August 1996, President Clinton signed the Iran-Libya Sanctions Act (ILSA) of 1996). Under this Act the United States could impose a range of sanctions against foreign firms investing more than \$40 million in Iran's oil and gas industry. The figure was later reduced to \$20 million. The Act requires the President to impose sanctions on any foreign firm or government enterprise that invest more than \$20 million in a year, at least two of the following six sanctions.<sup>35</sup>

1. Denial of Export-Import bank loans, Credits, or Credit guarantees for US exports to sanctioned firm.
2. Denial of licenses for the US exports of military – Useful Technology to the sanctioned firm.
3. Denial of US bank loans exceeding \$10 million in one year to the sanctioned firm.
4. If the sanctioned firm is a financial institution, a prohibition on that firm service as a primary dealer in US government bonds, and/or a prohibition on

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<sup>34</sup> Cited in Adam Tarock (March 1996), "US-Iran Relations: heading for confrontations?", *Third World Quarterly*, 17 (1): p.150.

<sup>35</sup> Congressional Record, Iran and Libya Sanctions Act of 1996 (House of Representatives-July 18, 1996), [Online: web] Accessed 10 September 2005, URL: <http://www.fas.org/irp/congress/1996-cr/h960618b.htm>: p.H6470

that firm's service as a repository for US government funds (each count as one sanction).

5. Prohibition on US government procurement from or contracting with the sanctioned firm.
6. A restriction on imports from the sanctioned firm, in accordance with International Emergency Economic Powers Act.

The Act (ILSA of 1996) has become a major hindrance to Iran for its economic reconstruction, which was severely damaged by the prolonged Iran-Iraq war in the eighties. In other words, the policy of containing Iran has gone beyond classic trade and economic sanctions. The US has been pursuing at its core objectives such as the weakening of Iran and obstructing its multi-faceted growth and development.

Though the Iranian officials did not give details of the economic difficulty caused by the sanctions, it is not hard to identify the affected areas. Infact, Mohsen Yahyavi, Deputy Chairman of the Oil Sub-Committee admitted, "The US sanctions were succeeding in preventing foreign companies from responding to tenders for oil exploration and development, and consequently a lack of investment was hindering the country's oil production."<sup>36</sup> It succeeded in gradually decreasing Iran's revenues. Many countries refrained from supplying Iran with advanced weapons and technologies, which could be used for modernising its armed forces. Finding non-American buyers for Iranian oil and non-American to invest in Iran's offshore oil and gas fields were not cost-free.<sup>37</sup> Goods banned from the United States were imported through third parties at extra cost or substituted for from lower-quality sources.<sup>38</sup> Rescheduling of short-term arrears on debt to other countries was taken under less favourable terms. Foreign loans and technological assistance were withheld or cancelled. While the Iranians argued that the sanctions did not inflict irreparable damage, to be sure, the embargo brought many setbacks to Iran's economy.

<sup>36</sup> As cited in Shebonti Ray Dadwal (July 1997), "Iran and the US: In the Shadow of Containment", *Strategic Analysis*, 20 (4): p.604.

<sup>37</sup> Jahangir Amuzegar (May/June 1997), "Adjusting to Sanctions", *Foreign Affairs*, New York, 76 (3): p.32.

<sup>38</sup> *ibid.*



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Since 1979, US policy vis-à-vis Iran has driven the two countries into perpetual confrontation till today. On the Arab-Israel conflict, Iran takes the position that Israel is an illegitimate state that has no right to exist. It also remains hostile to the Oslo peace process. Moreover, Iran's supreme leader Khamenei revives a campaign against Western cultural influence, the term he employs, 'cultural onslaught' of the West. In 1996 parliamentary elections and 1997 Presidential elections Khamenei tried to rouse public opinion for or against various candidates or political factions by asserting that people should not vote for 'an American Islam' or for those who would be soft to America.

Despite of these differences, Rafsanjani expressed his willingness to restore relations with the United States, based on mutual trust and respect.<sup>39</sup> He indicated that the release of the assets frozen in 1979 would be a good way to facilitate trust between the two nations (multi-billion dollar dispute remains over the value and billing of arms that Iran paid to the United States before the revolution which were never delivered). In the United States too, several senior US officials – both Republican and Democrat, from the National Security Council, the State Department, and the Central Intelligence Agency (CIA), publicly urged Washington to test the water of constructive engagement through either European allies or direct dialogue.<sup>40</sup> However, this could not produce any tangible result as hardliners in Iran were determined not to re-establish ties with America.

It was after Khatami's election to power that there was a transformation in attitudes encouraged by constructive statement by leaders of both countries. During his first post-election press conference, Khatami argued that when it comes to improved relations with the United States, "the key to the problems is in their hands, not ours." And the State Department duly noted that now "the ball is in Iran's court."<sup>41</sup> Khatami also called for removing tensions with other countries and establishing relations of peace and tranquility that would safeguard the rights, interests and independence of all nations.

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<sup>39</sup> *ibid*, p.34.

<sup>40</sup> Robin Wright and Shaul Bakhash (Fall 1997), "The US and Iran: An offer they can't Refuse?", *Foreign Policy*, New York, Issue No.108: p.128.

<sup>41</sup> *ibid*, p.129.



He began his dialogue with the American people in an interview with the CNN, on 7 January 1998. In the interview he condemned terrorism and attacks on innocent people and invited American people to join in a 'thoughtful dialogue' with the Iranian people. He expressed his 'regret' for the US-Embassy take-over and also disapproved the burning of US flag and the anti-American slogans.<sup>42</sup> More importantly, he said, "there is a 'bulky wall' of mistrust that separated Iran and America which should be broken down."<sup>43</sup> Khatami's concessionary comments and his genuine willingness to start dialogue with America resulted in some flexibility from the United States. In due course there occurred programme of exchanges between Iran and America, which involved scholars, filmmakers, artists, athletes and a fortuitous meeting at the World Cup in France.

However, the initiative taken by Khatami could not be sustained, as a number of differences were there at that time. The proof of Iranian involvement in the 1996 Khobar bombing in Saudi Arabia, which killed 19 US citizens, lingered in the minds of the Americans. Iranian hardliners tried to stymie attempts to improve relations between Iran and the US. They created the usual uproar against this supposed retreat from revolutionary principles. The supreme leader Khamenei, who believes his legitimacy derives from his anti-American stance and who often sets the tone for anti-American rhetoric, was suspicious of US motives. He reverted to harsh attack on the United States and adamantly ruled out negotiations or diplomatic relations with America. President Khatami came under attack from various fronts and in the summer of 1998 he lost his trusted ally, the Mayor of Tehran, and his lieutenant, the Interior Minister Abdullah Nouri.<sup>44</sup>

In March 2000, the United States signaled its new approach towards Iran through a speech delivered by former Secretary of State, Madeleine Albright. She announced the easing of sanctions on Iranian food and carpets and offered to settle the long-standing issue on the frozen assets through a dialogue without any preconditions.<sup>45</sup> Albright even went as far as deploring Washington's role in the Anglo-American coup d'etat against Mossadeq's elected government. The American

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<sup>42</sup> Ansari, n.2, p.49.

<sup>43</sup> *ibid.*, as cited in the article.

<sup>44</sup> *ibid.* p.52.

<sup>45</sup> Puneet Talwar (Jul/Aug 2001), "Iran in the Balance", *Foreign Affairs*, 80 (4): p.63.

overture was received favourably by many Iranians who wanted to re-establish ties with the United States. However, hardliners in Iran chose to ignore the American offer. They considered that restoration of relations with the US would cause US undermining of the Iranian government. The experience of the 1953 CIA sponsored coup d'état against Iranian Prime Minister Mossadeq reinforced this conspiratorial interpretation of Washington policy towards Iran. The suspicion that USA's intention was to overthrow the Islamic republic was deeply rooted in Iranian political culture.

The new administration in Washington under George Bush extended ILSA for another five years on 3 August 2001. During the signing of the bill President Bush said, "I think we should review sanctions frequently to assess their effectiveness and continued stability." However, in view of the 11 September 2001, such changes are unlikely to come anytime soon.<sup>46</sup> After the 11 September event, the Bush administration has designated Iran as a member of the 'axis of evil'— who is sponsoring Islamic terrorism and developing Weapons of Mass Destruction.

Ironically, by 2002, the United States destroyed the Taliban regime in Afghanistan and in 2003; it removed Saddam Hussein - two enemies of Iran. While it augurs well to Iran's domestic and regional interests, it also rang alarm bells for Iran as American forces have surrounded Iran on all sides. Many of the objectives of the war in Iraq - elimination of WMD, suppression of state-sponsored terrorism, regime change through external intervention, democratisation through military means could be easily applied to Iran as well.<sup>47</sup> Americans have been strongly advocating sponsoring opposition parties in Iran to topple the regime. The neoconservatives have suggested that the US should continue to use CIA agents to incite Iranian college teachers and workers to carry out demonstrations causing closer of oil refineries thus collapsing economy.<sup>48</sup>

Since one of the most important aims of the US has been to prevent a nuclear state in West Asia, its policy in the region shifted to Iran after the downfall of Saddam Hussein. The US has been looking at various ways to stop Iranian nuclear

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<sup>46</sup> [Online: web] Accessed 8 January 2006, URL: <http://www.mafhoum.com/press3/108E16.htm>

<sup>47</sup> David Menashri (2005), "Iran's Evolving Regional Politics: Reflections of Domestic Factionalism", in Ansari (ed.), n.21, p.300.

<sup>48</sup> Cited in Hua Liming (2005), "Iran Witnessed by History", in Ansari (ed.), n.21, p.278.

programme. In late June 2004, US Secretary of State, Collin Powell suggested, "Iran may face UN economic sanctions if it fails to prove that it is not pursuing a nuclear weapon programme."<sup>49</sup> Washington has threatened to use force if Iran continued with the uranium enrichment and processing activities.<sup>50</sup>

## 5. IRAN'S GAS POLICY

In the wake of the United States economic sanctions and political pressure, Iran has been utilising its natural gas as a tool to build economic and political relations with several countries. It has taken note of the US failure to boycott former Soviet Union's natural gas export due to the opposition of Western European countries. Thus, Iran has adopted several measures to attract outside countries and companies to invest in its gas fields. At the same time, it has also been seeking for ways to cooperate with its neighbours to promote its gas.

The demand for natural gas has been growing rapidly, particularly in Europe and Asia. Therefore, the export of natural gas to Europe and the Indian Subcontinent has become a primary objective for Iran.

Iran possesses the second largest gas reserves in the world next to Russia, which is estimated at about 970.750 trillion cubic feet (tcf) of gas. South Pars is the largest gas field in Iran, estimated at about 280 tcf of gas. Khangiran, which is the oldest gas field in Iran, is located near Sarakhs in the northeast and very close to Turkmenistan. Other major gas fields include; Nar and Kangan in the South, North Pars, Panzanan, Bini Hakimeh, Milaton, Golshan and Farsi.

Since 1990, Iran has been undertaking an ongoing gas utilisation programme, which is designed to boost natural gas production to 10 tcf per year by 2010. In 1995, Iran produced 1.25 tcf of gas, in 2000 it produced 2.13 tcf and in 2003 it produced 2.79 tcf.<sup>51</sup> In 1995, Iran consumed 1243 billion cubic feet (bcf) of gas, it consumed

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<sup>49</sup> [Online: web] Accessed 13 February 2006, URL: [http://www.mafhoum.com/press\\_3/108\\_E/16.htm](http://www.mafhoum.com/press_3/108_E/16.htm)

<sup>50</sup> During the State of the Union Address in January 2005, President Bush suggested that 'all options are on the table' including the use of force against Iran.

<sup>51</sup> International Energy Annual, [Online: web] Accessed 13 February 2006, URL: <http://www.eia.doe.gov/pub/international/iealf/table13x15>

2221 bcf of gas in 2000, and in 2003 it consumed 2798 bcf of gas.<sup>52</sup> With almost unlimited potential of gas production, Iran has been keen to export large amount of gas to foreign markets. A large number of ambitious gas pipeline projects have been proposed to export gas from Iran to Europe and South Asia.

In recent years, natural gas consumption and its demand has gone up sharply. While in 1995 the total amount of gas consumed by the world was 79,642 bcf, in 2003 the world consumed 92,505 bcf of gas.<sup>53</sup> According to the International Energy Agency (IEA), the annual growth rate of global energy demand will be 2.3 percent between 2000 and 2010, and the share of gas in the global energy equation will increase from 23 per cent to 35 per cent.<sup>54</sup> As the production of oil is declining, it is held that in the present century gas would be the major source of fuel for the world. Gas is also cheaper and cleaner than other fossil fuel. It is also an attractive fuel as it is friendlier to environment than coal and oil. Iran therefore, would be a major supplier of gas to the world.

The Iranian government began its efforts to promote higher gas export to foreign markets after the discovery of its South Pars gas field in 1989. In the last few years the country's gas demand for domestic consumption has been raised in order to substitute gas for oil and make oil available for export. Gas is also required for injections into the old oil fields as oil production depends on gas. Therefore, the promotion of natural gas has become a national priority for Iran.

The gas sector is relatively less developed than the oil sector. Iran needs technical expertise as well as capital resource from international gas companies for developing and modernising its gas fields. The capital investment for development of natural gas is more complicated than oil. Crude oil can easily be exported to various destinations after production. But natural gas export is only possible either in the liquefied form or through gas pipelines. This is an additional constraint due to the security of the pipeline. The development of gas requires investment of multi-billion dollars.

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<sup>52</sup> *ibid.*

<sup>53</sup> *ibid.*

<sup>54</sup> Reports (Spring 1997), "The International Gas Conference and Exhibition, Kish Free Zone, Island, Iran (16-17 Feb. 1997)", *The Iranian Journal of International Affairs*, IX (1): p.112.

The political debate over Khatami's policy of liberalisation, and the criticism over the functioning of the country's oil company led the Majlis to approve the formation of a high profile 'Supreme Energy Council' to deal with energy related affairs. Its creation was seen as a move by the government to reassert its authority over the energy industry in the wake of the recent tension between the energy commission and the ministry of petroleum.<sup>55</sup>

The National Iranian Gas Company (NIGC) looks after the Iranian gas industry. It is the responsibility of the NIGC for the treatment and transmission of gas to consumption centres as well as the delivery of treated natural gas to the end users in household, industrial and commercial sectors and power generation plants. At present the NIGC has nine treatment plants with a total process and treatment capacity of about 270 million cubic metres (mcm) of gas per day, which is going to be increased to 700 mcm per day by 2010. The transmission pipeline in the year 2004 was expected to be around 18,000 km.<sup>56</sup>

The National Iranian Gas Exporting Company (NIGEC) is responsible for the export of natural gas through pipelines or in the form of liquefied natural gas (LNG). At present there are four projects on the LNG front through joint ventures with reputable international companies, which studies the technical and economic feasibility on gas export.<sup>57</sup> These four Liquefied Natural Gas projects are; National Iranian Oil Company Liquefied Natural Gas, Iran Liquefied Natural Gas, Pars Liquefied Natural Gas and Persian Liquefied Natural Gas.

As pointed out, Iran needed massive foreign capital and investment to develop its gas fields, a law known as 'Service contracts' or 'Buy-Back' arrangement was introduced for foreign companies. There are various important aspects of the 'Buy-Back' arrangement.<sup>58</sup> Firstly, the international oil/gas companies would be responsible for all appraisal and development operations, as well as financing the projects. Secondly, the oil/ gas companies' expenditure plus a fixed amount of

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<sup>55</sup> S.D. Muni and Girijesh Pant (2005), *India's Search for Energy Security: Prospects for Cooperation with Extended Neighbourhood*, Rupa & Co: New Delhi, p.239.

<sup>56</sup> Hadi Nezhad-Hosseini (November 2005), "Iran Invites Participation in its Vast Petroleum Sector", *Phoenix Quarterly*, New Delhi, Issue No.4: p.32.

<sup>57</sup> *ibid.*

<sup>58</sup> *ibid.*, p.33.

remuneration, which secures the company's acceptable rate of return, would be paid within a certain period of time. The principle of risk/reward trade-off would, however, be considered in the calculation of the rate of return. Thirdly, oil and gas or gas condensates so produced would be the main source of payment. Thus, the long-term sale and purchase agreements of the product would also be concluded. And finally, management of the projects would be under a steering committee, which would constitute a joint management agreement. This Buy-Back scheme would help expand the life span of companies' involvement in the development of oil/gas fields for much longer period.

For upstream and downstream activities, Iran's offer for international cooperation and development falls into the following two categories.<sup>59</sup> Firstly, the development of different phases of the South Pars gas field. The contractual framework would be 'Buy-Back' arrangement. Although, the Iranian government would be the sole owner of the reserves, gas out-let can be designated to specific development on a long-term basis contract and developers could have technical advisory on the operation of the field. Secondly, as an incentive for investors, Iran would welcome projects integrating upstream/downstream and market developing in a form of package deal. This includes; development and pressure maintenance off existing discovered fields, the development of newly discovered fields, and exploration and development of new fields.

In order to reduce government intervention, political risk and lower legal limits and obstacles for foreign companies, Iran passed a law entitled "Law for Promotion and Support of Foreign Investment" in 2002.<sup>60</sup> The law is very similar to the 1956, "Law for Attraction and Protection of Foreign Investment". The law was promulgated in order to have a viable legal procedure for attracting foreign investment and technology, especially in the oil and gas sector, which requires large foreign capital investment. Under this law, all recognised investment in Iran would enjoy the full protection of the Iranian government. The protection is both for permission to repatriate profits annually in the original hard currency and for

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<sup>59</sup> *ibid.*

<sup>60</sup> [Online: web] Accessed 13 February 2006, URL: <http://www.parstimes.com/law/foreign-investment.html>

compensation in case of nationalisation because of the national interest. Under article 7 of the 'Law for Promotion and Support of Foreign Investment 2002' a 'Centre for Foreign Investment Services' was established within the premises of the Organisation for Investment and Economic and Technical Assistance of the Islamic Republic of Iran. The 'Centre for Foreign Investment Services' provides required service to the foreign investors and disseminates information to the intended businessman. This was established to facilitate and intensify the process of investment in Iran and to draw the attention of the foreign investors towards the country.

Thus, it can be witnessed that Iran has taken systematic steps to open negotiations with international gas companies and investors for expanding and developing its gas fields to play its role in the world energy market. It has also shown an interest in signing the Energy Charter Treaty, which provides a framework of inter-governmental cooperation in areas like energy transit, investment and energy efficiency.

## **6. IRAN'S GAS TRADE AND RELATIONS**

Possessing the second largest gas reserves in the world and with a unique geographical position linking West Asia with the landlocked Central Asian states and placed between Europe and Asia, Iran has become a major supplier of gas to the world. Moreover, it has a special role to play in the regional development of gas resources, as most of the proposed gas pipelines will either pass through Iran or its territorial water. Over the last few years, Iran has finalised gas deals and gas pipeline projects with countries such as Turkey, China, India, Pakistan, Armenia, Azerbaijan, Turkmenistan and European countries.

Turkey is one country, which needs Iranian gas. Turkey's economic growth has already been constrained by the shortage of gas supply. At present Turkey requires 10 billion cubic metres (bcm) of additional gas annually. Its gas consumption is expected to reach 55 bcm by 2010 and 80 bcm by 2020.

On 12 August 1996, Turkey announced that a \$20 billion natural gas agreement was signed with Iran. Incidentally, the announcement came right after the

Congress passed the ILSA. It was held that the timing of the announcement could be attributed to the formation of a new government in Ankara led by the Islamic Refah (welfare) Party and Turkey's increasing demand for electricity.<sup>61</sup>

The Iran-Turkey agreement raised several questions in the Congress and Administration. At a news conference after the announcement of the deal, US Secretary of State Christopher said, "The United States thinks there is a risk that the deal may violate the new law," and added that the United States would continue to dissuade Turkey from implementing the pipeline agreement.<sup>62</sup> Turkey on its part maintained that the deal constituted trade with Iran and not investment as its agreement was to purchase gas and that both the countries will be responsible for building the pipeline in their own territory. Turkey also maintained that the agreement was signed before the ILSA Act was passed.<sup>63</sup>

The Iran-Turkey gas pipeline was officially inaugurated in January 2002, following several years of suspension due to economic, political and technical factors. Export of Iranian natural gas to Turkey is expected to reach 350 billion cubic feet per year by 2007. However, in June 2002, Turkey halted Iranian gas import due to the dispute over the price of gas. But on 13 November 2002, Turkey announced that it had resumed gas import from Iran reportedly after securing a lower price and a reduction in the take-or-pay percentage. Again in 2004, the dispute over the price of natural gas resurfaced between Iran and Turkey. While the Iranians said they would not cut the price of natural gas, Turkey's Energy Minister, Hilmi Guler, stated that Turkey would seek international arbitration on its natural gas price dispute with Iran.<sup>64</sup> Nevertheless, the materialisation of the Iran-Turkey gas pipeline created new opportunities for Iran to export its gas to Europe via Turkey.

Energy has been the key factor in promoting cooperation between Iran and Europe. Many European countries have signed gas deals and pipeline projects with Iran, which would enhance the existing economic cooperation. In March 2002, Iran

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<sup>61</sup> Kenneth B. Katzman, Carol Migdalovitz and Lawrence C. Kumins (2001), "The Iran-Turkey Pipeline Deal: The Geopolitics of Natural Gas", in Benliot (ed.), n.29, p.111.

<sup>62</sup> *ibid*, p.121.

<sup>63</sup> *ibid*.

<sup>64</sup> Iran Country Analysis Brief, [Online: web] Accessed 15 September 2005, URL: <http://www.eia.doe.gov/emeu/cabs/iran.html>.



and Greece signed a \$300 million agreement, which calls for extending the natural gas pipeline from Iran to Turkey into northern Greece. From Greece, gas could be transported to other European countries via Bulgaria and Romania. A Memorandum of Understanding (MoU) was signed on this possibility in January 2003, and a Joint Working Group was set up in October 2003.<sup>65</sup>

In January 2004, Austria signed a MoU with the Iranian National Gas Export Company (NIGEC) on possible cooperation regarding the proposed \$4 billion 'Nabucco' gas pipeline from Iran through Turkey to Austria.<sup>66</sup> It is expected that gas export to Austria would start by 2009. Iran has also a plan to export its gas to Italy through undersea pipeline as the demand for gas has been increasingly going up in Italy.

While Iran sees China as an important strategic ally, China sees Iran as a regional power and a route to Central Asia's oil and gas. Trade in energy has been the most important factor in Iran and China bilateral relations. Chinese companies have invested in Iran especially in oil fields. In 1997, Iran and China reached an agreement on a joint venture project to upgrade a refinery in Guangdong in southern China to expand its capacity to process Iranian crude oil.

China's search for energy has prompted it to reinforce its relations with Iran. This new relationship between Iran and China has become a major concern for US foreign policy makers. The relationship is posing a threat to the United States moral hegemony and ability to check Iran, whose record it abhors. In June 2004, Chris Hill, the Assistant Secretary of State for East Asian and Pacific Affairs told to a Subcommittee of the US House of Representatives, "A major task for the United States and its Asian allies is to ensure that in its search for resources and commodities to grid its economic machinery, China does not underwrite the continuation of regimes that pursue policies seeking to undermine rather than sustain the security and stability of the international community."<sup>67</sup> Such concern has already proved justified as in the case of Iran. In October 2004, Iran signed a \$100 billion, 25 years contract with

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<sup>65</sup> *ibid.*

<sup>66</sup> *ibid.*

<sup>67</sup> Cited in David Zweig and Bi Jianhai (Sept/Oct 2005), "China's Global Hunt for Energy", *Foreign Affairs*, 84 (5): p.32.

China's oil giant Sinopec group for the production and export of 10 million tons of natural gas in a year to China.<sup>68</sup> It was also agreed that Sinopec would construct a refinery for natural gas condensates and develop the Yadavaran oil field. Under the deal, Sinopec would have the right to purchase half of Yadavaran's oil output – possibly 150,000 barrels of oil per day.

The agreement has become a boon for Iran, as it would allow Iran to exploit as yet untapped resources. The deal has given Iran the leverage to negotiate better deals with China in the near future. The statement of Iran's Oil Minister, Bijan Zangeneh, during the signing of the gas deal proved this, he said, "Iran is China's biggest oil supplier and wants to be its long term business partner."<sup>69</sup>

Iran and Russia have differences on the aquatic boundaries of the Caspian Sea. Russia had signed a separate accord with Azerbaijan on the boundaries. President Khatami objected the Russia-Azerbaijan agreement and made it clear that Iran would oppose any bilateral agreement that other countries might reach on the delineation of the Caspian borders. Despite of these differences, there is a convergence of interest between Iran and Russia. They possess the first and the second largest gas reserves in the world. Therefore, efforts have been made to promote gas cooperation between the two countries at a larger scale by conceiving a community of gas exporters.<sup>70</sup> This would enable both the countries to find feasible ways for transporting the Caspian Sea region gas, as both Iran and Russia have a large stake in the region. The two countries have signed a Memorandum of Understanding to cooperate in oil and gas sector, pertaining to the marketing, developing and transportation of these resources.<sup>71</sup> At present the Russian gas company Gazprom the largest gas company in the world is involved in the development of the Iranian South Pars gas field.

American proposals of promoting gas and oil export pipelines that would avoid crossing Russia and Iran are based more on politics than economics. Most route options, which the Americans suggest are fraught with technical and financial difficulties. Yet, America pursues to build pipelines that would suit its geopolitical

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<sup>68</sup> [Online: web] Accessed 13 February 2006, URL: <http://www.xinhuanet.com/english/2004-10/30/>

<sup>69</sup> *ibid.*

<sup>70</sup> Cited in Muni and Pant, n.55, p.252.

<sup>71</sup> *ibid.*

convenience more than the interest of those companies and shareholders. In 1999, the US Department of State pressed the leaders of Turkey, Georgia, Azerbaijan, Kazakhstan and Turkmenistan to sign a package of legal framework agreement in Istanbul.<sup>72</sup> The objective of the plan was to reduce Russia's political influence in the Caucasus by pushing it out of the Caspian Sea, and further isolate Iran in the region.

Despite the American intervention and its policy in the region, Iran has signed gas pipeline projects with some Central Asian states. In December 1997, Turkmenistan launched the \$190 million Korpezhe-Kurt-Kui pipeline to Iran, the first natural gas pipeline in Central Asia to bypass Russia.<sup>73</sup> According to the terms of the 25 years contract between the two countries, Iran will take between 177 billion cubic metres (bcm) and 212 bcm of natural gas from Turkmenistan in a year with 35 percent of Turkmen supplies allocation as payment for Iran's contribution to building the pipeline. Iran will use this natural gas in its northern areas, far from its main natural gas reserves in the south. Iran has also discussed importing of natural gas from Azerbaijan.<sup>74</sup> Import of gas from its neighbours would enable Iran to export its gas in a larger quantity from its main reserves. Moreover, it has become economically viable, as Iran does not need to transport its gas from south to north for its domestic use, thereby saving the construction cost of pipeline.

In May 2004, Armenia and Iran agreed on a long-term deal under which Iran will supply around 1.3 trillion cubic feet of gas to Armenia for 20 years, starting from 2007.<sup>75</sup> Armenia in exchange will supply electricity to Iran. As part of the deal, the two countries agreed to build an 85 miles gas pipeline at a cost of more than \$200 million, which had already begun by late November 2004.

To the list one must also add the Iran-Pakistan-India gas pipeline, which was conceived and proposed several years ago yet not materialised. In addition to the pipeline project, in June 2005, Gas Authority of India Ltd. (GAIL) and the National

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<sup>72</sup> Alec Rasizade (Spring-Summer 2002), "The Caspian Energy Legend and the Great Game of Concomitant Pipelines", *The Iranian Journal of International Affairs*, XIV (1 and 2): 22.

<sup>73</sup> Iran Country Analysis Brief, n.64.

<sup>74</sup> *ibid.*

<sup>75</sup> *ibid.*

Iranian Gas Export Company (NIGEC) signed a 25 years deal to import 5 million tons of LNG per year to India. The import of gas to India is expected to start by 2009.

## 7. CONCLUSION

It can be seen that Iran's foreign policy oscillated between idealism and realism throughout 1989 to 2005. Its policy was shaped by the wave of hardliners and reformers in the country - the supporters of revolutionary radicalism and those who supported economic and political relations with the outside world, including America. Its policy makers were confronted with the question of whether to emphasise ethical questions or adopt a pragmatic stance given the limitations besetting a revolutionary country and adverse international reaction to the Islamic Republic.

In the early 1990s, Iran adopted a more pragmatic approach to the changing international situation. At that juncture, its policy was focused on the idea of peaceful coexistence and friendly relations with other nations. Its foreign policy agenda gave priorities to foreign investment and taking of loans from international financial institutions, adoption of free trade and expansion of economic ties with the developed countries. On the domestic front, Iran encouraged the free market and the minimisation of the government's role in economic activities. Meanwhile, it maintained its distance with the United States while adopting a conciliatory tone with regard to EU, Japan and Russia. However, in the mid 1990s, hardliners got strengthened, which marked a shift moving towards its revolutionary days. Its confrontation with the US became more intense. The US initiated a new wave of hostile policies against Iran and passed the Iran-Libya Sanctions Act in 1996. Economically, its initiatives brought little benefit to the rank and file, as corruption was rampant. Reconstruction and rehabilitation of cities ravaged by the 1980-88 Iran-Iraq war did not proceed fast enough. Therefore, President Rafsanjani could not achieve much both on domestic and international fronts.

The election of Khatami to power in 1997 was considered as a turning point in the post-revolution era in Iran. Soon after Khatami assumed power, hopes were raised that his administration would support political and cultural openness, pursue peaceful relations with the rest of the world and seek respectable status for Iran in the

international community. True to the expectations of the people, Khatami adopted a pragmatic approach. Iran reached a rapprochement with Saudi Arabia after several years of mutual recrimination. Its relations with other countries in the Gulf region palpably improved. Friendship with Russia, China and India intensified. It also re-established and measurably restored its ties with the EU. Khatami's interview with the CNN in 1998, which calls the American people to start 'dialogue' with the Iranian people, was the defining moment during his terms. Economically, foreign trade non-tariff barriers were replaced with tariffs, most export restrictions were eliminated, import licensing was streamlined and tariff structure was rationalised. On the whole both regional and international issues were handled with utmost care.

However a new wave of hard-line backlash occurred by the beginning of Khatami's second term, which undid his moderate policies both domestically and internationally. This group of hardliners weakened and halted policies, which they viewed as threatening to revolutionary principles. Khatami himself a cleric had always taken extreme care to portray his reforms as consistent with the ideals of the revolution and Iran's constitutional order. His strong stance of Iran's right under the Nonproliferation Treaty (NPT) to engage in uranium conversion for peaceful purposes, and his firm resistance to the demands and efforts of the US-EU coalition dented his early laudable initiatives and accomplishment, eventually leading the EU to side with the US.

Therefore, the end result of Iran's foreign policy carried out by both Rafsanjani and Khatami was that it could not progress much. Firstly, it was due to the struggle from within the country between hardliners and reformers, which to a large extent influenced its foreign policy. Secondly, its confrontation with the US and its nuclear programme created apprehension and suspicion in the outside world.

Nonetheless, Iran has built relations with several countries through energy trade. Blessed with the second largest gas reserves in the world and complimented by the growing energy demand globally, Iran has signed agreements with several countries for exporting its gas despite of the US sanctions. Arguably natural gas has become a vital factor for changing Iran's economic and strategic interests. It has provided a means for Iran to demonstrate its international acceptance and circumvent

US sanctions and pressure. Various gas deals which Iran has signed with several countries and international companies provide the much needed foreign investment and technical assistance to develop its oil and gas fields.

Gas exports and its promotion have created new job opportunities for Iran. It has given impetus to its economic development. The process of gas export has been helping Iran to forge bilateral cooperation with other countries. Gas deals with countries like India, China and European countries have opened new opportunities for Iran to induce these countries for investment in other sectors, apart from oil and gas.

No doubt, promotion of gas production and export has become a political tool for Iran to forge allies and come out of its isolation. With most gas deals running into several billion dollars, Iran has gained huge leverage both economically and politically. Cooperation has emerged in the form of Iran-India, Iran-China, Iran-Pakistan, Iran-EU, Iran-Turkey, etc. Moreover, natural gas deals and pipeline projects are long-term agreements, which would ultimately help Iran in expanding bilateral ties with those countries. Thus, it can be said that a rationally designed and long-term gas policy has become a component of Iran's domestic and foreign economic relations that has close linkage with its foreign policy.

## *Chapter III*

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# IRAN'S FOREIGN POLICY TOWARDS INDIA AND PAKISTAN

### 1. BACKGROUND

The end of the Cold War and the collapse of the Soviet Union meant that Iran could not bank too much on the counterweight to the United States. Europe became a focus of Iran's foreign policy since 1980s, as an economic and diplomatic partner to replace Iran's pre-revolutionary ties with the US. However, it was held that the Iran-EU functional accommodation was not based on the kind of long-term strategic political and security considerations but based on economic and short-term diplomatic interests. In West Asia, there was the emergence of 'Pan America' after the Soviet disintegration. Iran had Syria as its only friend in the region. These situations compelled Iran to reorient its policy towards India and Pakistan. Therefore, Iran changed its policy of 'neither West nor East but only the Islamic Republic' to 'Look East' policy.

As Iran had been isolated by the international community due to the pressure of the US under its tremendous clout as the sole superpower, it was forced to cultivate and construct concrete steps for economic partnership, technological assistance, sources of weaponry and regional security with India and Pakistan. The opportunity came in 1993 when the then Indian Prime Minister, Narashimha Rao visited Iran. It was during Rao's visit that a Memorandum of Understanding (MoU) was signed between Iran and India for the construction of a gas pipeline from Iran to India. The aftermath of Rao's visit witnessed various official exchanges negotiating the pipeline project not only between Iran and India but also between Iran and Pakistan, exposing the willingness from all the parties to join the beneficial gas pipeline project. For Iran, the gas pipeline project provided a much sought after opportunity to usher its policy towards India and Pakistan. Iran's policy of forging economic cooperation and regional security measures with these



two regional powers undoubtedly brightened after the formal proposition of the gas pipeline project. The project has been helping Iran to improve its relations with India and Pakistan through increased communications with these two countries in recent years.

## 2. INDIA

Iranian policy towards India has been determined within the framework of the Third World<sup>1</sup> and the age long ties that existed between the two nations. Iran has always shown its faith in India and reiterates its desire to promote close relationship with India. The level of India's industrial and technological development impressed it. The advanced educational system in India that complies with all international standards brings great appeal to Iran. Iran has appreciated India's role in Non-aligned Movement (NaM) and conceded that India was a leading state of the Third World.<sup>2</sup> India being a neutral state and an increasingly developing country, Iran always treasures the ties that it has with India.

While both Iran and India have had respectful and healthy relationship, the 1992 Babri Masjid demolition by Hindu fundamentalist forces did almost rupture the relations. Iran spearheaded the Muslims community in decrying against the demolition of the Masjid and demanded the restoration of the Muslims legitimate right. Iran also often raises the question of communal riots in India and expresses its concern over the conditions of the Muslims welfare. On 24 January 1990, an official spokesman of the Iranian Foreign Ministry, while addressing a news conference in Tehran expressed 'profound regret' over the handling of riots in Kashmir and called the deployment of Indian security forces unjustified.<sup>3</sup> President Rafsanjani also expressed support for the right of self-determination of the Kashmiri people during his visit to Pakistan in September 1992.

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<sup>1</sup> A.H.H. Abidi (Jul-Sept 1996), "Iranian Perspective on Relations with India", *International Studies*, New Delhi, 32 (3): p.319.

<sup>2</sup> *ibid*, p.321.

<sup>3</sup> Darshan Singh (Apr-Sept 1995), "Appraisal of Iran's President, Rafsanjani's visit to India in April 1995", *India Quarterly*, New Delhi, 51 (2 & 3): p.124.

However, the visit of Indian Prime Minister, Narashimha Rao and the eventual signing of a memorandum of understanding (MoU) on the gas pipeline project somewhat subsided the Iranian displeasure with India over the Babri Masjid demolition and the Kashmir problem.<sup>4</sup> Iran assured Indian Prime Minister, Rao during the visit that it had no intention of interfering in India's internal affairs. And in March 1994, when the then Indian Finance Minister, Dinesh Singh was in Iran, it made its position clear that Kashmir was a 'bilateral dispute' that India and Pakistan should resolve through mutual dialogue.<sup>5</sup> Therefore, it can be witnessed that the historic visit of Narashimha Rao opened a new chapter in Iran-India relations providing new avenues for strengthening the existing ties.

With the passage of time, Iran has been shifting its policy towards India. It has been held that Iran considers relation with India would help it in building new bridges and come out of its isolation. The visit of Iranian President, Ali Akbar Hashemi Rafsanjani in 1995 to India was an indication of Iran's effort to forge closer relations with India. Certainly, the visit gives momentum to the existing relationship. Rafsanjani described his visit as a pilgrimage to India and said it demonstrated "affinity of views" of the two countries in the international forum. The visit also cleared the misunderstanding between Iran and India on the Kashmir issue. On the issue Rafsanjani said, "We do not like the existing situation in that area. It is not in the interest of India, it is not in the interest of Kashmir. We do not want to interfere; we only want talks so that a solution can be found."<sup>6</sup> Since then Iran has been more careful in its comments on the issue.

A very significant aspect of Rafsanjani's visit was that he was accompanied by a high-level 100 member delegation, which held intensive discussion on matters of mutual interest. It has also to be noted that Rafsanjani's visit was the first by an Iranian President after its 1979 revolution. The joint statement issued by Iran and India during Rafsanjani's visit said that the two countries were convinced that through mutual and sincere dialogue, differences and issues in the region could be peacefully resolved. Security, peace,

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<sup>4</sup> Abidi, n.1, p.322.

<sup>5</sup> Singh, n.3, p.125.

<sup>6</sup> *ibid.*

stability, terrorism, and disarmament were the main issues, which Iran and India agreed to work together.

High-level bilateral contacts between Iran and India have increased remarkably since 1993, leading to a revival of sustained political contact and incremental consolidation of economic cooperation. India's then Prime Minister Atal Bihari Vajpayee's visit to Iran in April 2001 added new dimensions to the Iran-India relationship. The 'Tehran Declaration' signed by Iran and India during Vajpayee's visit incorporated various issues, which include:<sup>7</sup> agreement on technical cooperation; agreement on customs cooperation; MoU on energy cooperation; agreement on trade and economic cooperation. The 'New Delhi Declaration' followed the 'Tehran Declaration' during President Khatami's visit to India in January 2003. Khatami was made the Chief Guest of the Republic Day celebration, which symbolised further expansion of bilateral cooperation between the two countries. While recalling and reaffirming the 'Tehran Declaration' the 'New Delhi Declaration' touches all aspects of bilateral cooperation – bilateral economic cooperation, cooperation in the field of hydrocarbons, science and technology, information and technology, education and training, Iran-India cooperation in reconstruction of Afghanistan, international terrorism and other global issues.<sup>8</sup>

Therefore, it can be seen that Iran-India bilateral relationship has been on the upswing after the formal proposition of the gas pipeline project in 1993. The remarkable changes in the growing cooperation between Iran and India can be seen on political economic, regional and global issues.

## **2.1 Afghanistan**

The emergence of the Taliban in Afghanistan and, its ouster of President Burhanuddin Rabbani's government was not in the interests of both Iran and India. The

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<sup>7</sup> [Online: web] Accessed 19 September 2005, URL: [http://pib.nic.in/archive/pmvisit/pm\\_visit\\_iran/pm\\_rel\\_main.html](http://pib.nic.in/archive/pmvisit/pm_visit_iran/pm_rel_main.html)

<sup>8</sup> The Republic of India and The Islamic Republic of Iran "The New Delhi Declaration" 25 January 2003, [Online: web] Accessed 13 February 2006, URL: <http://meaindia.nic.in/event/2003/01/25events01.htm>

two countries viewed the growth of Taliban as a threat to the entire region. The Iranians considered that the US and its regional allies armed the Taliban to encircle Iran.<sup>9</sup> The Taliban regime harsh treatment to the Shia community and its role in drug trafficking along with the perceived threat that it could pose to Iran's Central Asia interest were the major source of concern for Iran. India too was worried about the Taliban nexus with militants in Kashmir.

Both Iran and India along with Russia never recognised, nor established diplomatic contacts with the Taliban. Sharing the two countries' concern of the Taliban as a destabilising force were Turkmenistan, Uzbekistan, Tajikistan and, Russia, which regarded the region as its sphere of influence.

Iran and Afghanistan almost fought a war in September 1998 when the Iranians came to know that after the capture of Mazari-i-Sharif the Taliban militia forces had murdered hundreds of Shi'ite Muslims and eight Iranian diplomats and an Iranian journalist and held captives several Iranian nationals. The event was seen in Iran as a national humiliation. War between Iran and Afghanistan was averted after the UN intervention and the bodies of the murdered were returned and the captured Iranians were sent home.<sup>10</sup>

In India, it was held that Afghan mercenaries were involved during the Kargil war. India's opposition to the Taliban became more forthright after the hijacking of the Indian Airline's IC-814 to Kandahar by Pakistan based Kashmiri militants. The hostages were exchanged with three militants, including Jaish-e-Mohammad Chief, Masood Azhar – these militants were languishing in Indian prison.

As such, the Taliban destabilising effect in the region became the collective source of concern for Iran and India. Combating trans-border terrorism became a priority

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<sup>9</sup> Farah Naaz (May 2001), "Indo-Iranian Relations: Vital Factors in the 1990s", *Strategic Analysis*, New Delhi, XXV (2): p.232.

<sup>10</sup> Adam Tarock (August 1999), "The politics of the pipeline: the Iran and Afghanistan conflict", *Third World Quarterly*, Oxfordshire, 20 (4): p.801.

for the two countries after these events. The situation in Afghanistan was among the various issues of mutual interest, which India's then Foreign Minister Jaswant Singh discussed with his counterpart during his visit to Iran in 2000. During Vajpayee's visit to Iran in 2001, the two countries, considering their mutual interests, incorporated Afghanistan issue in the 'Tehran Declaration' which envisages the establishment of a broad-based government in Afghanistan and to cooperate to fight the menace of terrorism for regional stability.

Oddly, it was the Americans, who routed out the Taliban in Afghanistan in 2002. By the time Taliban rule in Afghanistan was nearing its end, security officials from Iran, India and Russia held regular consultations in Dushanbe, capital of Tajikistan, which shares a border with Afghanistan. They took part in the Bonn conference that put together the Afghan interim government. Thereafter, Iran and India have been actively participating in rebuilding Afghanistan. During the 12<sup>th</sup> Iran-India Joint Economic Commission Session held in New Delhi, on 20 May 2002, Iranian Foreign Minister Kamal Kharrazi reiterated that Iran attaches great importance to the establishment of peace and security in the region and for this reason, it was making every effort to bring peace to Afghanistan. He underscored the support for the interim Afghan government until the formation of a permanent government in Afghanistan and assessed as positive the Iran-India cooperation in Afghanistan reconstruction and economic rehabilitation.<sup>11</sup>

In 2003, when President Khatami visited India, the two countries re-emphasised that the interests of peace and stability in the region would be served by a strong, united, prosperous and independent Afghanistan. They urged the international community to remain committed on long-term basis to the reconstruction and development of Afghanistan, to controlling re-emergence of terrorist forces and spread of narcotics from Afghanistan. Iran and India agreed that stability of Afghanistan was vital, as it would help the stability of the region. They viewed the recent trilateral agreement between the governments of India, Iran and Afghanistan to develop the Chahbahar route through

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<sup>11</sup> Speeches and Viewpoints (Spring-Summer 2002), "12<sup>th</sup> Iran-India Joint Economic Commission Session 20 May 2002", *The Iranian Journal of International Affairs*, Tehran. XIV (1&2): pp.128-9.

Melak, Zaranj and Delaram would facilitate regional trade and transit, including to Afghanistan and Central Asia, contributing thus to enhanced regional economic prosperity.<sup>12</sup> During the joint press conference of Khatami and Vajpayee, when the Indian media asked President Khatami on what concrete aspects can Iran and India cooperate with each other on Afghanistan issue, Khatami replied,

“First of all, we both believe that we should strengthen the central government in Afghanistan. We should help the central government in Afghanistan to reconstruct the country, the country that has been with great calamities in the past 25 years. Iran has allocated 560 million dollars as the budget to be spent for reconstruction and development of Afghanistan during five years. And this year it has allocated 50 million dollars of this budget for the same purpose. Apart from that, Iran provides various facilities to Afghanistan and the Afghan government including facilitation of transit of goods into Afghanistan. Also, we are working to have Iran used as a transit route for India in order to help Afghanistan. This is a programme under study and implementation. We hope that in the future it would extend further.”<sup>13</sup>

The statements of Khatami explain that a stable government should be established which should fully represent the multi-ethnic and cultural diversity of Afghanistan, and capable of leading it to the path of economic development and social stability, thereby enhancing regional security. Apart from these, a stable government in Afghanistan has much to do with the diplomatic effort and trade investment, which Iran has put in recent years with the Central Asian states.

## **2.2 Central Asia**

Iran and India share common interests for a stable political and economic order in Central Asia. The huge natural resources in oil and gas of the Central Asian states and the potential for expanding trade and commerce with these states have been the clear strategic convergence between Iran and India. India sees Iran as the only corridor to the Central Asian states given its adversarial relations with Pakistan. Given its unique and

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<sup>12</sup> See the “New Delhi Declaration”, n.8.

<sup>13</sup> Joint Press Interaction of Syyed Mohammad Khatami, The President of Islamic Republic of Iran, and Atal Bihari Vajpayee, The Prime Minister of India [Online: web] Accessed 13 Feb 2006, URL: <http://meaindia.nic.in/event/2003/01/25events01.htm>

privileged strategic position, unmatched by that of any other country, Iran hopes India's participation would bolster its economic cooperation with the Central Asian states

In April 1995, Iran, India and Turkmenistan signed a trilateral agreement in New Delhi, which allows the access of Iranian territory for trade between India and Turkmenistan. This was pivotal for Iran, as Turkmenistan is Iran's gateway to Central Asia. This assures economic cooperation between Iran and India where both have common interests as it allows Indian companies to open offices and Indian-registered vehicles to operate in Iran and Turkmenistan.<sup>14</sup>

In September 2002, Iran, India and Russia signed the North-South International Transportation Corridor agreement.<sup>15</sup> This has become crucial for Iran and India as it allows easy access to the Central Asian states to transport Indian goods. On the other hand, it serves the Iranian purpose of facilitating transit of goods, which has been a part of its economic development plans. The construction of transport link among Iran, India, Russia and Turkmenistan will develop Iran's potential as a regional hub. For India, this would go a long way in cutting time and costs, and increase its influence in the Central Asian states, which has been constricted due to Islamabad policies.

During Khatami's visit to India in 2003, both Iran and India noted with satisfaction the operationalisation of the North-South transit arrangement and the growing interest among other states in the region to participate in it. They also reaffirmed their commitment to develop the full potential of the North-South arrangement, its infrastructure, desired certification and customs harmonisation, expert studies and regular evaluation to aid its growth. The importance of the North-South corridor can be summed up in Khatami's reply to the Indian media during his visit to India. When asked by the Indian media to elaborate the significance and impact of this cooperation for regional economy and politics in the coming years. He replied,

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<sup>14</sup> Gulshan Dietl (April-June 1997), "Quest for Influence in Central Asia: India and Pakistan", *International Studies*, 34 (2): p.137.

<sup>15</sup> Rafeal Abbasov (2005), "Transport Policy: The North-South Vs. West-East Divide", [Online: web] Accessed 10 January 2006, URL: <http://www.azerbaijantoday.az:8101/ARCHIVE/09/economics2.html>

“We welcome the presence of India in the economic, scientific and cultural fields in Middle East and Central Asia and Europe through Iran, but also we are ready and we have had discussions in order to have cooperation together for our presence in the third countries. The North-South corridor in which India, Iran and Russia play pivotal roles could be quite important for promoting peace and security in the region as also trade and economic development. India has very good programmes to implement in Chahbahar. We hope that we would be able to finalise our agreement in linking India to Chahbahar and through Chahbahar to the National Iranian Rail road, and this would enable India to be connected to Central Asia and Europe.”<sup>16</sup>

Iran-India cooperation in Central Asia can be further seen, as there has been a plan to create East Corridor, through cooperation amongst Iran, Afghanistan and India and to extend it to Uzbekistan.

### **2.3 Trade and Commerce**

The legacy of the Iran-Iraq war, the economic reforms in Iran and the US sanctions prompted Iran to search for economic partnership with India and other developing countries. Iran has to reconstruct its economy and meet the shortage arising out of sanctions imposed by the United States. Moreover, the new economic reform, which Iran has taken, requires investment from Indian companies in its economy. Indian advancement in technical know-how and its geographical proximity with Iran has made India a destination for Iran's trade and commerce. Trade between Iran and India is promoted primarily through two institutional mechanisms; the Indo-Iran Joint Commission and the Indo-Iran Joint Business Council, which meets at the Foreign Ministers' level to discuss and examine progress in economic ties.

For a long time, the major and most important commodity that Iran imports from India has been tea. Other major items are drugs, pharmaceuticals and fine chemicals, iron ore, machinery and instruments, rice, wheat, meat, inorganic/organic/agro chemicals, processed minerals, auto/bicycle parts etc. Crude oil and petroleum products are the major Iranian exports to India. Iranian crude oil comprises more than 10 per cent of the total of Indian crude oil import. It consists more than 3/4 of the value out of Iran's total

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<sup>16</sup> Joint Press Interaction of Khatami and Vajpayee, n.13.



exports to India. Other commodities which Iran exports to India are fruits, nuts excluding cashew nut, sulphur and unroasted iron pyrites, metaliferous ores and metal scrap, plastic materials, etc.<sup>17</sup> Thus it can be seen that Iran-India trade comprises a large number of commodities.

Joint ventures between Iran and India include; the Iran-Hind Shipping Company in Iran, and Madras Refineries in India. In 1991 when the then Iranian Foreign Minister visited India, Iran invited India for participation in four major projects including the construction of a steel plant, a railway line and electrification of a large township under construction with modern facilities.<sup>18</sup> Major Indian companies pursuing projects in Iran include; Mahindra, Tata, Transpek, Ashok Leyland, Kirloskar, Bharat Forge etc.<sup>19</sup>

Trade between Iran and India has expanded after Narashimha Rao visited Iran in 1993. Improvement in trade relations between Iran and India became apparent in 1994 when it increased from \$ 480 million in 1993 to \$618 million in 1994, an increase by 28 per cent. In 1997, bilateral trade between Iran and India reached \$1.68 billion. By 2004, it had crossed the \$ 3 billion mark. The trade between the two countries is projected to reach \$ 5 billion by 2008.<sup>20</sup>

In 2003, Iran and India agreed on the need to undertake expeditious negotiations for the conclusion of Bilateral Investment Promotion and Protection Agreement, Double Taxation Avoidance Agreement and MoU on Energy Cooperation.<sup>21</sup> A very significant aspect of this agreement was manifested by the abolishing of the ban of tea import from India by the Iranian government in 2004, which created new opportunities for Indian tea exporters to boost their business. Similarly, India relaxed its norms of import of merchandise from Iran. This should encourage the Iranian businessmen to intensify their efforts towards narrowing the trade imbalance between the two countries.

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<sup>17</sup> For a detailed essay on Iran-India economic relationship, see Mohammad Azhar (1999), *Contemporary Gulf Economics and Indo-Gulf Relations*, New Delhi: New Horizon Publishers. pp.260-85.

<sup>18</sup> Singh, n.3, p.126.

<sup>19</sup> *ibid*, p.127.

<sup>20</sup> Laxman Kumar Behera (August 2005), "India-Iran Economic Cooperation", *World Focus*, New Delhi, 26 (8): p.12.

<sup>21</sup> See, "The New Delhi Declaration", n.8.

A framework agreement to operationalise the USD 200 million, line of credit to Iran was also concluded.<sup>22</sup> This was aimed at encouraging India's exports to Iran, particularly India's participation in Iran's infrastructure projects. Exim Bank was the designated bank from the Indian side to extend the line of credit. Exim bank would be the provider of facilities and the seven Iranian designated banks would be the issuing banks. Under the terms and conditions agreed upon, the Exim Bank would finance up to 85 per cent of the purchase of capital goods related service within the limit of the total amount of the line of credit. The line of credit arrangement would facilitate availability of supplier credit and would strengthen trade and economic cooperation between India and Iran.

With growing cooperation between the two nations, Iran has provided new facilities of visa for Indian traders. The conditions of issuing visa to the Indian residents have become very easy, now visa can be issued within 24 hours of submitting the required documents. In 2004, the Embassy of the Islamic Republic of Iran in India issued about twelve thousand different kinds of visa of which 550 visas were the multiple entry visas for the Indian traders. The issuing of multiple visas was an indication of the good relations with Indian traders. Three-year multi entry visa and three-year resident permit in Iran have been provided to those who have made or intend to make investment in Iran, based on the recommendation of the investment organisation.<sup>23</sup> Thus, it can be seen that bilateral trade between Iran and India has shown a positive trend, by creating new frameworks and mechanisms.

## **2.4 Energy**

Energy is the most important factor in Iran-India bilateral cooperation. India has been importing crude oil from Iran for a long time. As India's oil consumption is increasingly rising, Iran has become the main supplier of oil to India. During Indian

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<sup>22</sup> Documents signed between Islamic Republic of Iran and India, [Online: web] Accessed 13 February 2006, URL: <http://meaindianic.in/event/2003/01/25events01.htm>

<sup>23</sup> For details on this issue, see interview with Mehdi Mohtashami Chief of the Consular Section, *Phoenix Quarterly*, New Delhi, Issue No. 2: p.22.

Prime Minister Vajpayee's visit to Iran in 2001, Iran and India signed an agreement for cooperation in the oil and gas sector. Iranian Oil Minister Zangeneh described the agreement as a new chapter in bilateral relations between the two countries.

Again, in 2003, the two countries signed a MoU related with energy. The objective of the MoU was to establish a general framework to implement actions of cooperation of mutual interest in hydrocarbon sector such as petrochemicals, liquid and gas hydrocarbons and their derivatives, research and development, consultancy services, HRD, exploration, development, production and processing, refining, marketing and transportation of gas, LNG and CNG. It was agreed that the Indian side would support its oil and gas public sector units and private companies to participate in the development of LNG projects in Iran and to purchase LNG from Iran at mutually agreed terms and prices. For this purpose, it was agreed to set up a Joint Working Group to implement cooperation under the MoU.<sup>24</sup>

The visible result of this agreement was the signing of an LNG agreement worth \$20 to \$30 billion in June 2005. Under the deal Iran would supply 5 million tons per year of LNG to India for a period of 25 years. The import of LNG to India from Iran would start by the beginning of 2009. In addition to this the National Iranian Oil Company (NIOC) offered Indian companies to participate in developing the Yadavaran and Jufeyr oilfields. Combined, India's shares in the two oil fields will produce 900,000 barrels per day.<sup>25</sup> Furthermore, the Indian Oil Corporation (IOC) had signed a MoU with M/s. Petropars for developing an upstream block in South Pars gas field and setting up of LNG liquefaction facilities in Iran. The Gas Authority of India Ltd. (GAIL) has also signed a MoU with Iran Fuel Conservation Organisation (IFCO) for cooperation in CNG development.

## **2.5 Science and Technology**

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<sup>24</sup> Documents signed between Islamic Republic of Iran and India, n.22.

<sup>25</sup> [Online: web] Accessed 18 August 2005, URL: <http://www.eia.doe.gov/emeu/cabs/iran.html>

Cooperation in science and technology between Iran and India has also been expanding in recent years. Given India's advancement in technological know-how, Iran has made efforts to attract and facilitate it into the country. In 2001, a MoU on information technology was signed between Iran and India. And in 2003, they signed an agreement on cooperation in the fields of science and technology.<sup>26</sup> This agreement identifies diverse fields of cooperation; including information and technology, biotechnology, pharmaceutical research, food technology and other fields as mutually agreed upon. It was agreed that they would organise training programmes, exchange of scientists and scholars and hold seminars etc.

The fast progress and change, which India has made, in the fields of information and technology (IT), biotechnology and pharmacy have attracted worldwide attention lately, and Iran is not an exception to this and wants close cooperation with India in these fields.<sup>27</sup> Cooperation between India and Iran in science and technology has made good progress. By 2005, Hyderabad alone had more than 25 companies, which were engaged in trade with Iranian companies; among them five were involved in IT companies and six in the field of pharmaceuticals. Some companies had joint ventures and one company had been establishing a plant in the field of conversion of manure, and the rest of them in other fields.<sup>28</sup>

Hyderabad being the hub of information and technology in India, the Iranian Consulate in the city has initiated various steps to further expand cooperation in this field, such as: paving the way for the political and commerce authorities to visit Iran and vice versa; it has suggested direct flights for Tehran-Hyderabad-Tehran to establish an aerial silk route; initiatives have been taken to activate the Chambers of Commerce of both the countries; facilitated the service for issue of visas to the businessmen by the commercial section of Iran Consulate; coordinated the visit of a high level trade delegation from

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<sup>26</sup> Documents signed between Islamic Republic of Iran and India, n.22.

<sup>27</sup> The report of the Consul General of the Islamic Republic of Iran at Hyderabad on relationship between Iran and the state of Andhra Pradesh (May 2005), *Phoenix Quarterly*, Issue No.2: PP.28 -31.

<sup>28</sup> Hossein Ravesh (Feb 2005), "Iran-Andhra Pradesh Ties", *Phoenix Quarterly*, Issue No. 1: p.10.

Chamber of Commerce of Tehran to Andhra Pradesh during the month of February 2005.<sup>29</sup>

## **2.6 Military Ties**

Military cooperation has also found its niche in the bilateral relations between Iran and India. With Indian advancement in military equipments, Iran views India as a major source of conventional military assistance. In 2003, the two countries decided to explore opportunities for cooperation in defence in agreed areas, including training and exchange of visits.<sup>30</sup> This has led to military-to-military contacts between Iran and India. In March 2003, the two countries' naval forces carried out joint naval manoeuvres and exercises in the Arabian Sea.<sup>31</sup> It was held that India had been planning to sell the Konkurs anti-tank missile to Iran and assist in the up gradation of Iran's T-72 tanks and armored vehicles.<sup>32</sup> Iran hopes from India for crucial technical assistance and training opportunities to its forces.

## **2.7 Indo-Iran Friendship Society**

Relationship between Iran and India has been confined not only to economic and political activities. Their relationship has finally turned into friendship through a conscious effort. People to people contacts between the two countries have increased considerably. A very important instance of this was the first meeting of Indo-Iran Friendship Society, Mumbai wing, which met on 15<sup>th</sup> April 2005 at Marine Plaza Hotel in Mumbai.<sup>33</sup> Dignitaries from various fields such as political, economic, cultural and business delegates attended the meeting. At the meeting, Mohammad Shokrani, the Consul General of Iran in Mumbai stated that given the age-old bilateral relations and

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<sup>29</sup> *ibid*, p.11.

<sup>30</sup> [Online: web] Accessed 15 January 2006, URL:  
<http://www.meaindia.nic.in/event/2003/01/25events01.htm>

<sup>31</sup> Harsh V. Pant (May/June 2004), "India and Iran: An 'Axis' in the making?", *Asian Survey*, California, XLIV (3): p.375.

<sup>32</sup> *ibid*.

<sup>33</sup> For details on this issue, see Consulate's Activities (May 2005), "First meeting of Indo-Iranian Friendship Society of Mumbai", *Phoenix Quarterly*, Issue No. 2: pp.18-19.

innumerable commonalities existing between the two countries, and considering the major boost that had taken place in trade and commerce between the two nations over the past several years prompted the formation of this Friendship Society. Mino Shroff, the then chairman of the Indo-Iranian society touched upon the civilisational affinities of both nations and expressed the hope that the Indo-Iranian Friendship Society would help both discover their old ties.

The significance of the Indo-Iran Friendship Society lies in its aims, which are as follow: to strengthen the existing friendly relations between India and Iran; to promote relation in educational cultural, economic and social fields; to help in implementing the cultural agreement between the two countries; to give sound footings to the said objectives. Thus, many activities have taken place such as arranging seminars, meetings, lectures, concerts, cultural gatherings etc.<sup>34</sup>

### 3. PAKISTAN

Foreign policy pronouncements of Iranian leaders emphasise their desire to promote relations with the Muslim states.<sup>35</sup> This has been due to the fact that Iran is a state built upon Islamic rationality, which means it is committed to the 'right' and 'rational' actions within the context of its constitution. The Iranian constitution under article 3 (16) state that the framing of the country's foreign policy would be based on Islamic criteria and fraternal commitment to all Muslims. Therefore, Iranian policy towards Pakistan has been shaped by common bond of Islam, given the fact that Islam was the driving force behind the movement that led to the creation of Pakistan. Another very important and permanent factor that shapes Iran's policy towards Pakistan is the sharing of 700 km long boundary between the two countries. Other major factors include; the geopolitical developments within and outside the region, changing security perception, and economic and political compulsion.

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<sup>34</sup> K.L. Malhotra (February 2005), "Indo-Iran Friendship Society", *Phoenix Quarterly*, Issue No.2: pp.20-21.

<sup>35</sup> Abidi, n.1, p.319.

### 3.1 Afghanistan

Afghanistan figures prominently in Iran's policy towards Pakistan because it occupies an important strategic position in the region. Iran and Pakistan competed for influence in Afghanistan by supporting rival factions during the Afghan civil war. While Pakistan campaigned for the emergence of a pro-Islamabad government in Afghanistan, Iran struggled to secure a balanced role for the Shia minority in Afghan politics and to avert the establishment of a hostile regime in Kabul.<sup>36</sup> The cause of disagreement on Afghanistan between the two countries stemmed from their varying levels of influence over Afghan developments, their political priorities, and the geopolitics of the region.

After the withdrawal of the Soviet Union from Afghanistan and the end of the Cold War, Afghanistan witnessed a new development, which had been dominated by an intense struggle for power by ethnically led factions with extensive foreign involvement. As a frontline states and hosts to millions of Afghan refugees, and patrons of Mujaheddin faction, Iran and Pakistan were heavily involved in Afghan politics during the post-communist civil war. Iran encouraged the alliance of all Afghan Shia factions regardless of their political orientations.<sup>37</sup> Meanwhile, both Iran and Pakistan considered a stable and peaceful Afghanistan would serve the geo-strategic, political and economic interest of the two nations, including their trade with the newly independent states of Central Asia and pave the way for the return of nearly three million Afghan refugees remaining in Iran and Pakistan.<sup>38</sup> However, due to the competing factional interests and mutual mistrust between the two countries and the interest of other foreign players in the region, they did not always agree on the details.

The rise of the Taliban in 1994 created deep mistrust between Iran and Pakistan. Iran suspected that Pakistan had a role in the creation and emergence of Taliban as many refugees from across the border in Pakistan joined the Taliban factions. Iran feared that

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<sup>36</sup> Ali A. Jalali (2000), "A Historical Perspective on Iran-Afghan Relations", in Ali Mohammadi and Anoushiravan Ehteshami (eds.), *Iran and Eurasia*, UK: Ithaca Press. p.138.

<sup>37</sup> *ibid*, p.148.

<sup>38</sup> *ibid*.

the Sunni militia Taliban would suppress the minority Shia community, as it viewed Taliban as anti-Shia and anti-Iranian fundamentalist Sunni movement sponsored by hostile forces.<sup>39</sup> On the other hand, Pakistan considered that Taliban's victory would augur well to its long-term geopolitical aims. With emerging differences on Afghanistan both Iran and Pakistan started providing weapons to their respective factions.

Iran's mistrust against Pakistan became more forthright after the Taliban ousted President Burhanuddin Rabbani's government in Afghanistan. Iran saw the victory of the Taliban as a conspiracy by the United States along with Saudi Arabia and Pakistan to isolate it. It did not like a regime in Kabul that would be friendly to its regional competitor, Saudi Arabia.<sup>40</sup> Therefore, it supported the Shi'ite factions, however, it became counter-productive as its support flared up rival fighting thereby impairing in finding a solution to Afghan crisis.

The differences between Iran and Pakistan touched the lowest ebb in 1998, when the Taliban captured Mazari-i-Sharif. The Taliban murdered thousands of Hazara Shi'ite Muslims, eight Iranian diplomats and an Iranian journalist. Iran blamed Pakistan thinking that the latter had a considerable influence over the Taliban. On the other hand, Pakistani officials discarded the myth pertaining to Pakistan wielding absolute control over the Taliban's decision making by citing various examples.<sup>41</sup> In order to contain the rising tension between Iran and Pakistan, General Pervez Musharaf visited Iran in December 1999.<sup>42</sup>

While Iran along with India, Russia and Central Asian states supported the Shia groups and the Northern Alliance, it was the United States, which ultimately removed the Taliban regime from Afghanistan after the 11 September 2001 event. Pakistan also changed its policy towards the Taliban after the event and sided with the international

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<sup>39</sup> *ibid*, p.151.

<sup>40</sup> Shah Alam (Oct-Dec 2004), "Iran-Pakistan Relations: Political and Strategic Dimensions", *Strategic Analysis*, 28 (4): p.533.

<sup>41</sup> Ahmed Montazeran and Kashif Mumtaz (Spring 2004), "Iran-Pakistan Cooperation for Regional Stability and Peace", *Strategic Studies*, Islamabad, XXIV: p.78.

<sup>42</sup> Alam, n.40, p.533.



coalition against the Taliban. With the ouster of the Taliban regime from Afghanistan, a renewed relationship between Iran and Pakistan has begun, both working towards accommodating each other's strategic and economic interests in Afghanistan. On 30 November 2001, Iranian and Pakistani Foreign Ministers during a press conference in Islamabad stated the unanimity about the establishment of a broad-based government in Afghanistan.<sup>43</sup> The changes in Iran-Pakistan relations can be seen when both the countries criticised the outbreak of problem between them on the issue of Afghanistan, during the Second Iran-Pakistan roundtable, which was held at the Institute for Political and International Studies (IPIS), Tehran, on 31 December 2001.

The visit of President Mohammad Khatami to Pakistan in December 2002, the first by an Iranian president in ten years,<sup>44</sup> was a revelation of Iran's policy to build closer ties with Pakistan. The visit reaffirmed the warm reciprocal sentiments of brotherhood and friendship between the two nations. For a stable Afghanistan, Iran needed the cooperation of Pakistan as the latter had been of great influence to Afghanistan in the past. President Khatami held talks with General Musharaf and Prime Minister Zaffarullah Khan Jamali, which covered all aspects of bilateral relations, as well as regional and international issues of mutual interest, including Afghanistan.<sup>45</sup> The four page joint communiqué issued at the conclusion of Khatami's visit reflects the similarity of view on key strategic issues including Kashmir, Palestine and Multilateralism, as well as the intention to enhance cooperation between the two countries.<sup>46</sup> As Afghanistan occupies an important strategic position for both the countries, they actively participated in the Bonn conference and pledged to support the installation of Hamid Karzai until the formation of a permanent government.

### **3.2 Kashmir**

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<sup>43</sup> Nazir Hussain (Autumn 2002), "Pak-Iran Relations in Post-9/11 Period: Regional and Global Impact", *Regional Studies*, Islamabad, XX (4): p.57.

<sup>44</sup> Montazeran and Mumtaz, n.41, p.81.

<sup>45</sup> *ibid*, p.81.

<sup>46</sup> Nasim Zehra (Spring 2003), "Pakistan-Iran Relations: Compulsion and Conditions for a Strategic Relationship," *Strategic Studies*, XXIII (I): p.79.

Iran's policy towards Pakistan has been shaped by a common bond of Islam. Therefore, Iran has supported Pakistan on several occasions on the Kashmir issue. President Rafsanjani, during his visit to Pakistan in September 1992, voiced support for the right to self-determination of the Muslims in Kashmir. Although several Iranian leaders made the same statement to India that Pakistan and India should solve the Kashmir issue through dialogue, Iran has more often than not repeated its traditional support for the Kashmiri cause. During the 9<sup>th</sup> summit of the Organisation of Islamic Conference (OIC), which was held in Doha in November 2000, Iran with other members condemned India for its high-handed suppression of the Kashmiri Muslims' rightful demand to exercise their inalienable right to self determination.<sup>47</sup> In October 2003, when Pakistani Prime Minister, Zafarrullah Khan visited Iran, President Khatami expressed concern over Indian atrocities in Occupied Kashmir, and in the joint communiqué, Iran called for early and unconditional Indo-Pak talks to resolve the Kashmir dispute in accordance with the wishes of the Kashmiri people.<sup>48</sup> Thus, Iran has always given support to Pakistan on the Kashmir issue at the expense of India by saying it is committed to supporting the struggling Muslims anywhere in the world.

### **3.3 Central Asia**

With the disintegration of the Soviet Union and the emergence of Central Asia and Transcaucasus states, there was competition among several countries for influence in the region including the United States, Russia, China, Pakistan and India due to the rich natural resources in oil and gas this region possesses. Iran too was able to strengthen its relations with these newly emerged states. Iran also extended its influence in the region as a part of a larger operation to build up its regional and international position. Given the fact that these countries provide large market for Iran, it requires Pakistani cooperation to expand its influence in the region. Although, Pakistan does not have direct access to the Central Asian Republics, it has an advantage due to the fact of Suniism in these countries.

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<sup>47</sup> Naaz, n.9, p.238.

<sup>48</sup> Cited in Montazeran and Mumtaz, n.41, p.83.

To counter American policy of isolating it, Iran expanded its relations with Central Asian states and promoted projects of economic issues through the Economic Cooperation Organisation (ECO), of which Pakistan is a member state. However, the Afghan issue brought Iran into a conflict of interest with Pakistan, even within the framework of ECO.<sup>49</sup> Iran continued to support the Northern Alliance, while Pakistan remained committed to the Taliban and paid lip service to the concept of power sharing in Afghanistan.

Despite of this difference Iran made efforts to seek Pakistan's cooperation in Central Asia. Cooperation between the two nations was seen to promote peace and stability in the region as they have close proximity to these countries geographically and traditionally. Iran and Pakistan also share ethnic commonalities and religion with these countries.

The statement of Iranian then Deputy Foreign Minister for Education and Research, Abbas Maleki explains why cooperation between Iran and Pakistan in this region would be important. He said,

“As the countries of Central Asia have long been the trade route between Europe and Asia as well as the corridors for migrant tribes from the North, no one can deny the important role this region has played in connection with economic prosperity in the East and West, and North and South Asia, the extension of commercial, scientific and cultural exchanges throughout Asia as well their significance in regional and global confrontation and crisis.”<sup>50</sup>

Iran also wants Pakistani cooperation in the utilisation of oil and gas resources in Central Asia pertaining to the export of these resources from ports in Iran and Pakistan by pipelines constructed through the southern coast of these countries. Iran hopes cooperation between the two countries in the transportation of good by land, sea and air to these countries would enhance Iran-Pakistan economic relations. It also sees the access

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<sup>49</sup> Hafeez Malik (Fall 2002), “Iran's Relations with Pakistan”, *Journal of South Asian and Middle Eastern Studies*, Villanova, XXVI (1): p.66.

<sup>50</sup> Abbas Maleki (March 1994), “Iran and Pakistan: Cooperation in Central Asia”, Paper delivered at the Foundation for Research on National Development and Security (FRIENDS), 25-30 March 1994 Rawalpindi: Pakistan.

by air from Islamabad to Khashqar as an important link to a part of Central Asia, promoting further cooperation between Iran and Pakistan, and bringing economic prosperity to this region.<sup>51</sup>

Iran considers that the economic cooperation among Islamic countries can draw the unipolar system to challenge. It believes Central Asia provides an ideal platform for enhancement of their cooperation given the huge market that the region provides for them. As such, Iran has been trying to pursue friendly cooperative ties with Pakistan. For Pakistan, cooperation with Iran would enhance its role, as Iran is the main gateway to Central Asia and its vast natural resources. In sum, mutual commercial and strategic interests between Iran and Pakistan have strengthened their cooperation in Central Asia.

### **3.4 Defence Cooperation**

Notwithstanding their divergence of views over Afghanistan, defence cooperation especially in sensitive area of nuclear technology emerged as an important factor in consolidating Iran's relationship with Pakistan. Clearly, Iran has always been seeking defence assistance from Pakistan, given the advancement the latter has made in defence technology. Moreover, its access to other countries for buying weapons has been constricted by the US pressure and sanctions.

The Iran-Pakistan Defence Agreement, which was signed in July 1989, reflects the significance of defence cooperation between the two nations. In 1998, when India and Pakistan tested their nuclear weapons, Iran expressed concern over India's nuclear test but supported Pakistan's nuclear test. Iranian Foreign Minister, Kamal Kharrazi was the first foreign dignitary to visit Pakistan on June 1 1998, after the nuclear test. He congratulated Pakistan for its nuclear achievement by saying, "Now we (Muslims) feel confident because a fellow Islamic nation possesses the know-how to build nuclear

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<sup>51</sup> *ibid.*

weapons.”<sup>52</sup> This statement reflects shared perception in the security arena between Iran and Pakistan.

Iran’s gas-centrifuge enrichment programme dates back to 1985 and consists of a pilot scale facility. The International Atomic Energy Agency (IAEA) found in Iran centrifuge acquired by Pakistan in the 1970s. Iran finally admitted that it obtained the designed plan for the centrifuge in 1987, though the transfer of technology took place in the 1990s. The source of this technology was Pakistan. Pakistani scientist Qadeer Khan had confessed that he helped Iran, Libya and North Korea by providing component of centrifuges – he sold discarded PI centrifuges that were contaminated to Iran.<sup>53</sup> Khan’s admission created deep internal crisis in Pakistan. The Iranian government conscious of resentment in Pakistan, sought to reassure Pakistan of its friendly intentions by saying, “Pakistan’s worries are Iran’s worries” and added “Pakistan is among Islamic Republic friends and we attach enormous importance to ties with Pakistan.”<sup>54</sup>

With the downfall of the Taliban in Afghanistan, defence cooperation between the two nations has been expanding. Pakistan and Iran are involved in the joint production of defence equipment including Pakistani-designed Al-Khalid tanks. Other areas under consideration for joint production include helicopters and unmanned vehicles.<sup>55</sup>

### **3.5 Economic Relations**

Trade between Iran and Pakistan is promoted through the institutional mechanism of the Pakistan-Iran Trade Committee. Iran imports from Pakistan rice, yarn, synthetic fibers, paper and paperboard. Iran exports to Pakistan consist of iron ore, fruits, steel, raw cotton and of course crude oil, which contributes the major part of its export to Pakistan.

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<sup>52</sup> Alam, n.40, p.534.

<sup>53</sup> Matin Zuberi (August 2005). “Iran and the NPT”, *World Focus*, New Delhi, 26 (8): p.18.

<sup>54</sup> Montazeran and Mumtaz, n.41, p.88.

<sup>55</sup> Zehra, n.46, p. 88.

Trade relations between Iran and Pakistan in the past years were not even. In 2003-2004, Pakistan's import from Iran totalled \$265 million whereas Iran's import from Pakistan was equal to \$ 92 million. Trade between the two nations remains tilted heavily in favour of Iran, mainly due to the heavy import of Iranian crude oil by Pakistan.

On 4 March 2004, Iran and Pakistan signed a Preferential Trade Agreement (PTA) at Islamabad,<sup>56</sup> under this agreement, both countries agreed to reduce customs duty on 647 tradable items where Pakistan will give duty concession on 338 items to Iran. In return, Tehran will give duty concession on 309 items to Islamabad. The purpose of the agreement was to expand and promote economic ties between the two countries.

The establishment of a refinery with a refinement capacity of 56 million tons per year in Balochistan province was also concluded by the two nations, each country's share of the product would be 50 percent. In February 2002 a 10 members Iranian delegation visited Pakistan and signed a memorandum of understanding with Pakistan containing three main points; enhanced cooperation in oil and gas sector, export of motor gasoline produced by Pakistan to Iran, and finally to pursue the project of gas pipeline to India.<sup>57</sup> Thus, it can be seen that economic, regional and strategic concerns have been the determining factors in Iran's policy towards Pakistan.

#### 4. CONCLUSION

Taking into consideration the expansion of Iran's relations with India and Pakistan, it can be argued that Iran has been succeeding in its policy towards these two countries. Certainly, the success has been manifested through the exchange visits of head of states and other lower ministerial visits, and the various institutional mechanisms that it has established with India and Pakistan. It is also visible in the expansion of trade with these two countries. While issues relating to security and politics dominate Iran's policy towards Pakistan, trade has been the driving force in its policy towards India. Expansion

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<sup>56</sup> Alam, n.40, p. 538.

<sup>57</sup> Zehra, n.46, p.84.

in bilateral relationship between Iran and India became apparent after the gas pipeline project was formally proposed in 1993. On the other hand, Iran-Pakistan relationship was slowed down due to the Afghanistan issue, but it picked up after the downfall of the Taliban in Afghanistan.

In Iran's policy to expand its ties with India and Pakistan, one sticking point revolves around Kashmir. The Iranians often faced dilemma in harmonising relations with these two countries simultaneously, given the adversarial relationship between India and Pakistan over the Kashmir issue.<sup>58</sup> Iran's support to Pakistan on the Kashmir issue often creates misunderstanding between Iran and India. On the other hand, as Kashmir has not been solved, the expansion of Iran-India relationship has perturbed Pakistani policy makers. They view it in the context of Indian endeavours to encircle Pakistan especially in view of the opening of an Indian Consulate in Bandar Abbas<sup>59</sup> and the recent defence agreement between Iran and India. However, Iran denies that it is building up relations with India at the expense of Pakistan. In November 2001, the Secretary for Supreme National Security Council, Hassan Rouhani, during his visit to Pakistan reiterated his country's position by saying, "Iran's good relations with India would help the people of Pakistan and Kashmir to resolve their differences with India".<sup>60</sup> Given this dilemma, Iran has been urging India and Pakistan to solve the Kashmir issue expeditiously through negotiation by the two states, so that it could have strong relations with India and Pakistan side by side.

Here, the Iran-Pakistan-India gas pipeline project has become pertinent. For Iran and Pakistan, the project has acted as a factor in re-establishing their relationship after they were separated due to the dispute over Afghanistan. The project has created more economic collaboration between the two nations. With more economic collaboration between them, the two nations' earlier conflicting positions on Afghanistan transformed into common policy objectives, which are now handled differently. Likewise, the project has enabled Iran to improve trade relations and communications with India.

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<sup>58</sup> Abidi, n. 1, p.329.

<sup>59</sup> Montazeran and Mumtaz, n.41, p.79.

<sup>60</sup> Hussain, n. 43, p.56.

Meanwhile, the project has become a factor, which has been helping India and Pakistan in the ongoing composite dialogue process lately. Pakistani Prime Minister, Shaukat Aziz had said, “We are working to provide India a secure energy corridor and enabling it to get gas from overseas.” He also referred to the pipeline as a ‘win-win situation for everyone’. India also views the project as an instrument, which would help in tackling poverty and underdevelopment in the region. The two nations feel that the step-by-step approach has helped in improving the atmosphere in the region and that the materialisation of the gas pipeline would lay the foundation for resolution of all disputes, including Kashmir.

The benefits and symbolism of the gas pipeline by far surpass any confidence building measure (CBM) undertaken by India and Pakistan. The potential for economic and developmental gain from the gas pipeline would help India and Pakistan to reassess their policies and move away from their old mindset. To safeguard the investment interests and other economic spin-offs, India and Pakistan would be bound to improve political cooperation.

From the Iranian point of view, an improvement in relations between India and Pakistan would serve Iran’s purpose; it would influence Iran-India and Iran-Pakistan relationship. This has been visible in the last few years when the three countries met several times to discuss the implementation of the pipeline project, which reflects how economic linkages facilitate cooperation amongst them.



## *Chapter IV*

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# THE IRAN-PAKISTAN-INDIA GAS PIPELINE: PROSPECTS FOR IRAN

### **1. BACKGROUND**

In 1989, Ali Shams Ardekani, the then Iranian Deputy Foreign Minister and R.K. Pachauri, Director General of The Energy and Resources Institute New Delhi, jointly conceived a plan for transporting natural gas from Iran to India through a pipeline stretching overland across Pakistan. They proposed the plan both to the Indian and Iranian governments in 1990. The Iranian government responded positively to the proposal and sent Ardekani to India. Ardekani backed the project at the New Delhi Annual Conference of the International Association of Energy Economics, 1990.<sup>1</sup> Eventually in 1993, Iran and India signed a Memorandum of Understanding (MoU) for the construction of a gas pipeline from Iran's South Pars gas field to Pakistan and then to India. However, this gas pipeline has been delayed due to the strained relationship between India and Pakistan.

Successive governments in Pakistan were opposed to the project because they thought it would benefit their archrival India. Pakistan therefore, refused to allow a feasibility study to be conducted in 1995 in its Exclusive Economic Zone (EEZ). And in May 1999, the Pakistani government turned down the proposal for extending the pipeline to India saying it would consume most of the gas to be supplied. India also had its security considerations. Indian policy makers were apprehensive that Pakistan might disrupt supplies during any military and diplomatic tensions between the two countries. Despite the difference between the two countries, both India and Pakistan need Iran's gas to meet their growing energy demands. Initially, the proposal did not make much impact

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<sup>1</sup> [Online: web] Accessed 15 August 2005, URL: <http://www.teriin.org/news/sep041.htm>

but over the last few years, it has become an important aspect in the energy discourse amongst Iran, Pakistan and India.

The proposed Iran-Pakistan-India gas pipeline project has become important in many ways. It is considered as a win-win project for all the parties involved. Energy security in India and Pakistan will be bolstered significantly, and boost the process of their economic development. For Iran, the gas pipeline will provide a broader market for its gas. It will obviously yield huge amount of foreign currency revenues and ameliorate its economic difficulties. In its efforts to check US influence in the region by strengthening its ties with Pakistan and India, the materialisation of the gas pipeline will be strategically important. Therefore, the gas pipeline project is of paramount importance for Iran, in several aspects. They range from issues such as economic, political and multilateral.

## **2. NEGOTIATING THE PIPELINE**

Since the formal proposition of the project, Iran has been persistently pushing India and Pakistan for the early implementation of the gas pipeline. However, keen negotiation amongst the three countries started only after General Pervez Musharaf conveyed Pakistani consent to Iran for the pipeline proposal. India was initially hesitant to the project, but the visit of its then External Affairs Minister, Jaswant Singh to Iran in 2000 provided impetus to it, as the pipeline project was discussed between Iran and India during his visit. They also agreed to set up the Indo-Iran Joint Working Group during Singh's visit, which would explore onshore, offshore and LNG options to export natural gas from Iran to India.

During the joint Iran-India gas committee session, which was held on 13 February 2001, in Tehran, the two countries, shared the view,

“While generally the overland pipeline option is economically the most viable, in the present instance there are serious security aspects, which need to be seriously addressed. The Iranian side referred to its proposal to establish an international consortium to implement the project in order to ensure guaranteed supply of gas to India. During the session, BHP representatives gave a

presentation to the Committee in which they explained necessary steps to be taken by both sides to make such a project viable. Both sides agreed that more studies need to be done in order to have a clearer picture regarding all aspects of the overland option. Both sides further agreed to ask their concerned companies (GAIL and NIOC) to discuss with BHP or any other suitable company to carry out detailed studies of all aspects, including the security of supply by contacting all countries involved.”<sup>2</sup>

But at that time, the Kargil War was still fresh in the minds of the Indian policy makers. India expressed its reluctance to Iran fearing that Pakistan might cut off supplies during emergency. As a result the Indian government asked the Iranian government to ensure the commitment of Pakistan to the project. Tehran was quick to approach Pakistani leadership to offer all sorts of security guarantees, which might goad the Indian government to agree to the overland proposal.<sup>3</sup> Pakistan on its part assured Iran the safety and security of the pipeline. Pakistani Minister of Petroleum and Natural Resources, Usman Aminuddin wrote to his Iranian counterpart that Pakistan was prepared to address all concerns of the Indian government in this regard, and was ready to extend all guarantees India required.<sup>4</sup>

In July 2001, Iran was worried over the sidelining of trade and economic issues in the Indo-Pak Summit. It speculated that the pipeline project might be excluded from the Summit, as Energy Ministers of India and Pakistan were absent. Keeping this sentiment in mind, Iran rushed its Deputy Foreign Minister, Syed Mohammad Hossein Adeli to Islamabad, who made an unscheduled visit for urgent consultations with President Musharaf. Khatami wrote a letter to Musharaf about the pipeline, which was handed over by Adeli. Adeli also briefed the General on various aspects of the pipeline. The President assured the support for the project saying it will benefit the economy of the region.<sup>5</sup> In November 2003, Iran offered to foot as much as 60 per cent of the pipeline project in order to persuade India and Pakistan for the early implementation of the pipeline. Adeli

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<sup>2</sup> Cited in Abbas Maleki (2001), “Iran, India and the Security of Energy”, in Jasjit Singh (ed.), *Oil and Gas In India's Security*, New Delhi: Knowledge World. p.66.

<sup>3</sup> *Deccan Herald*, Bangalore, 12 April 2001.

<sup>4</sup> Cited in Mohd. Naseem Khan (September 2001), “Vajpayee's Visit to Iran: Indo-Iranian Relations and Prospects of Bilateral Cooperation”, *Strategic Analysis*, New Delhi, XXV (6): p.768.

<sup>5</sup> Deepak Arora (2001), “Iran rushes to save pipeline project”, *National Herald*, New Delhi, 13 July 2001.

said that gas transported through an overland pipeline passing through Pakistan would be much cheaper than other alternatives.<sup>6</sup>

Negotiations on the pipeline had been lukewarm in the past due to the adversarial relationship between India and Pakistan and the complexities involved in the project. However, the dialogue on the project restarted with renewed vigour after the UPA (United Progressive Alliance) came to power in India in May 2004. A joint statement issued in New York, following a meeting between Prime Minister Manmohan Singh and President Musharaf on the sidelines of the United Nations General Assembly in September 2004 talked about the pipeline that could contribute to the welfare and prosperity of both India and Pakistan.<sup>7</sup> Since then momentum has built up on both sides of the border in favour of the project, with voices supporting it distinctly louder than those against.

In March 2005, an Indian delegation headed by Talmiz Ahmad visited Iran to discuss techno-economic issues. Iran told the visiting Indian officials that it would handle the 1100 kilometres stretch of the pipeline passing through its territory. It also told the visiting team that the remaining length up to the Indian border through Pakistan would be taken care of by an international consortium of Australia's BHP and Anglo-Dutch energy major Shell and possibly some financial institutions.<sup>8</sup>

By mid 2005, intense negotiation on the pipeline has started. Despite Washington's negative reaction to the election of Mahmoud Ahmadinejad as Iran's new President and the US opposition to the project, the then Indian Petroleum Minister, Mani Shanker Aiyar said that the change of regime in Iran would not have a negative impact on the proposal for the import of natural gas to India.<sup>9</sup> After a meeting between the then Indian External Affairs Minister, Natwar Singh and Pakistani Prime Minister, Shaukat

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<sup>6</sup> *The Indian Express*, New Delhi, 25 November 2003.

<sup>7</sup> Ranjit Devraj (2005), "Iran's Gas Pipeline May Turn South Asia's Peace Pipe", [Online: web] Accessed 15 August 2005, URL: <http://www.antiwar.com/ips/devraj.php?articleid=3775>.

<sup>8</sup> Sanjay Dutta (2005), "Iran, Pakistan step on gas with pipeline formula", *The Times of India*, New Delhi, 8 March 2005.

<sup>9</sup> *The Hindu*, New Delhi, 28 June 2005.

Aziz in Astana, Kazakhstan on the sidelines of the Sanghai Cooperation Organisation Summit in July. Both India and Pakistan agreed to press ahead with their plan to construct the pipeline that will transport gas deep into South Asia.<sup>10</sup> Aziz said that the Iran gas pipeline was an extremely complex one and it was crucial that the work to tie up the 'loose ends' begin. He was referring to the need for proper financial structuring, technical project studies, risk mitigation instruments and security guarantees, which have to be addressed in due course. Asked by Natwar Singh about the US pressure on the pipeline, Aziz said Pakistan would do what it felt was in its national interest to do. He stressed the importance of the pipeline and described it as a 'win-win project' for both countries.<sup>11</sup>

However, a hitch cropped up in July 2005, when Prime Minister Manmohan Singh remarked that the project was fraught with difficulties during his visit to the United States. During an interview with an American daily (Washington Post) he said, "I am realistic enough to realise that there are many risks, considering all the uncertainties of the situation there in Iran."<sup>12</sup> The remark invited diatribe from many quarters in India, although Iran did not react. There was speculation that Singh's remark came under pressure from the US given its opposition to the pipeline. But, Singh clarified that India would go ahead with the pipeline by saying that India's energy needs were recognised by the US administration and it had a right to meet its energy hydrocarbon needs. He also added that this was a decision between India and Iran, and no outside parties had any role in the matter. Reiterating India's position, Mani Shankar Aiyar said on 23 July that the country's deal with the US on nuclear energy was not a "quid pro quo" for abandoning the \$7.4 billion pipeline project and there was no any connection between the two.<sup>13</sup> He said that New Delhi would continue negotiations with Islamabad and Tehran on the project to achieve a project structure and there was no 'double speak' by the government on the project. "I met the Prime Minister after he came back from the US. He said that if all systems go [well], we are moving ahead with the pipeline project," Aiyar said adding

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<sup>10</sup> Siddarth Varadarajan (2005), "India, Pakistan to go ahead with the pipeline", *The Hindu*, 6 July 2005.

<sup>11</sup> *ibid.*

<sup>12</sup> *The Hindu*, 24 July 2005.

<sup>13</sup> Ashok Dasgupta (2005), "Pipeline Project will not be Abandoned: Aiyar", *The Hindu*, 24 July 2005.

that Singh in his interview to the Washington Post had only wanted to draw the attention of the US citizens to the risks involved in the project.<sup>14</sup>

In September 2005, Natwar Singh visited Iran for talks on a range of issues, including the Iranian nuclear issue and the purchase of oil and gas. During the visit, the new Iranian President Ahmadinejad told Singh that the gas pipeline project would be useful in binding India, Pakistan and Iran together. Iranian Foreign Minister, Manouchehr Mottaqi said the Iran-Pakistan-India gas pipeline deal had been finalised and different committees were working towards its execution. The two countries agreed that Petroleum Ministers from India, Pakistan and Iran would meet before the year-end to give shape to the trilateral gas pipeline project.<sup>15</sup> While intense negotiation on the project was going on, uncertainties on the pipeline resurfaced the same month. Contrary to all the assurances India received from Pakistan on the gas pipeline, General Musharaf reportedly told America's senior-most policy makers that he would gladly abandon the pipeline in exchange for four nuclear reactors.<sup>16</sup> But significantly in the next month in October, seeking to allay apprehensions on the proposed Iran-Pakistan-India gas pipeline project, India and Pakistan reiterated their commitment to it and agreed that it would contribute significantly to the prosperity and development of the two nations. A joint statement issued at the end of the first leg of the visit of Natwar Singh to Islamabad made a one-paragraph reference to the project. Both sides deemed it necessary to take note of it in the light of the controversy triggered by Indian decision to vote on the EU-sponsored resolution on the Iranian nuclear programme at the International Atomic Energy Agency (IAEA) meeting in Vienna.<sup>17</sup> The project also figured at the bilateral discussions between Singh and his Pakistani counterpart, Khurshid Mahmud Kasuri, as well as at meeting between Singh and Pakistani Prime Minister Shaukat Aziz. In the course of discussions India pointed out to the Pakistani leaders that it had recently appointed an expert to look into the economic viability of the pipeline and awaited the report for a decision. The Pakistani side said that it would soon be appointing an expert to evaluate the pipeline

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<sup>14</sup> S. Robert (2005), "No pressure from US on Iran-Pakistan-India pipeline project: Aiyar", [Online: web] Accessed 15 August 2005, URL: <http://www.newkerala.com/news.php?action=fullness&id=9921>.

<sup>15</sup> Amit Baruah (2005), "Green signal for LNG project", *The Hindu*, 4 September 2005.

<sup>16</sup> Harish Khare (2005), "When the General Was Told a Thing or Two", *The Hindu*, 19 September 2005.

<sup>17</sup> *The Hindu*, 5 October 2005.

from the economic angle. India also clarified that its vote on Iran resolution at Vienna had nothing to do with the pipeline and 'economic viability' of the project would be the sole criterion for New Delhi in deciding on it.<sup>18</sup>

After two days of talks in December 2005, India and Pakistan agreed to give a final shape to the project structure and framework of the pipeline by April 2006.<sup>19</sup> It was also announced that a tripartite meeting of the three Joint Working Groups on the pipeline 'may be held' early in 2006 in Tehran to discuss issues such as an integrated feasibility study, project structure and a tripartite framework agreement. They also decided to form a technical sub-group that would meet 'at least once a month' to discuss issues such as the quantum of gas, pipeline route, transportation tariff and system configuration. The issue of transit fees would be tackled as per the best international practices. The joint statement added there had been exchange of views on this.<sup>20</sup>

Meanwhile, Iran has been prodding New Delhi and Islamabad to get more proactive on the gas pipeline project since it presented its formal proposal. Iran says the change of regime following elections in the country will not have any impact on the fate of the proposed gas pipeline. Iranian Deputy Oil Minister, Hadi Nejad Hosseinian, who headed the high-level delegation to attend the first Joint Working Group meeting with India in New Delhi in August 2005 asked Mani Shankar Aiyar to expedite the process. Hosseinian told newsmen that India's security concerns regarding the project would be addressed and a foolproof arrangement will be made to safeguard the pipeline from possible threats. "There have been discussions on protecting the peace pipeline. We are sure that some solution will be found for safeguarding this project from possible threats," he said.<sup>21</sup>

Iran has listed out three reasons why India should not get intimidated by the threat of US sanctions. Hosseinian exhorted Mani Shankar Aiyar to give 'more push' to the

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<sup>18</sup> *ibid.*

<sup>19</sup> Amit Baruah (2005), "India, Pakistan agree on gas pipeline project", *The Hindu*, 18 December 2005.

<sup>20</sup> *ibid.*

<sup>21</sup> *The Hindu*, 4 August 2005.



project and not get bogged down by the Iran-Libya Sanctions Act (ILSA). For one, Hosseinian said that the Americans had not taken any action against France, Russia and Malaysia for the investment by their respective companies, Total, Gazprom and Petronas in Iran's South Pars gas field. Hosseinian was quoted as saying, "...this Act has been dead from the very beginning." Secondly, he assured Aiyar that ILSA might not cover the pipeline if the project was structured such that each country invested within its boundary. "In case the Iranian, Pakistani and Indian companies take care of the required investment in their own territories ILSA does not apply," Hosseinian said. He further argued that the US would not be able to put pressure on a large number of companies from different countries if the project was to be implemented by a consortium of international firms.<sup>22</sup>

Hosseinian played India against Pakistan saying the latter was already on board and would participate in the pipeline even if India decided to stay away. He said "Earlier, the Pakistani side had indicated December 2005 as the deadline for taking a decision about their participation in the project. However, now they are ready to participate in the project anytime."<sup>23</sup>

Significantly, India and Pakistan have pledged their commitment to push forward the project putting aside the US objection. They also have constituted a Joint Working Group to exchange views and develop a commonly acceptable approach. Pakistani Petroleum and Natural Resources Minister, Amanullah Khan Jadoon has told the Senate that the work on the pipeline would start by 2007. By late 2005, Pakistan and Iran have held four meetings through the Joint Working Group (JWG). The November meeting of the Joint Working Group discussed from the point of view of seller and buyer. With positive signs coming from India and Pakistan, Iran has been upbeat about the project. In December 2005, it offered to host the first tripartite ministerial level meeting with India and Pakistan to carry forward the talks on the proposed gas pipeline.<sup>24</sup>

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<sup>22</sup> Amitav Ranjan (2005), "Iran urges India to ignore US on pipeline", *The Indian Express*, 8 August 2005.

<sup>23</sup> *The Indian Express*, 30 December 2005.

<sup>24</sup> *The Times of India*, 30 December 2005.

### 3. SCHEME

While the final scheme of the pipeline will be decided after the tripartite meeting amongst the three countries, estimations on various aspects of the pipeline have been carried out. The Iran-Pakistan-India gas pipeline will be 2775 kilometres approximately in length. Starting from Assaluyah, South Pars gas field, it will stretch over 1100 kilometres in Iran alone and then it will enter Pakistan and pass through the provinces of Balochistan and Sind, which would traverse over 700 kilometres, and then extend to Indian territory, covering the rest of the length (975 kilometres).<sup>25</sup> The pipeline will be 56 inches diameter and would have a capacity of supplying 120 million standard cubic metres of gas a day (mscmd). Pakistan will take one third of it and the rest will flow to India.<sup>26</sup> However, gas requirements in India and Pakistan are expected to exceed the capacity of the pipeline. Pakistan has sought 60 mscmd of gas and India 90 mscmd of gas. Iran also plans to supply 150 mscmd of gas through this pipeline.<sup>27</sup> It also wants to supply gas to its domestic consumers through the same pipeline. The pipeline will have a number of compressors sited at strategic points. It was also reported that the pipeline would be laid down 1.5 metres deep under the ground.

Initially, the total cost of the project was estimated at about \$3 to \$4 billion. But as its execution has been delayed and considering the escalating price of steel, it is now estimated that it would cost more than \$7 billion.

The National Iranian Gas Export Company and Australia's Broken Hill Proprietary (BHP) have already prepared a pre-feasibility report. A study by the Asian Development Bank established that the project would be feasible even if Pakistan pursues it alone, but economies of scale would come into play if India joined the project.

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<sup>25</sup> See Robert, n.14.

<sup>26</sup> *The Hindu*, 5 August 2005.

<sup>27</sup> Amitav Ranjan (2005), "India opposes Iran's separate pipeline proposals", *The Indian Express*, 27 October 2005.

Major international companies such as Petronas of Malaysia, French Total, BHP of Australia and National Iranian Gas Company (NIGC) have expressed their interest in constructing the Iran-Pakistan-India gas pipeline. A consortium consisting of Anglo-Dutch energy major Shell, British Gas, Petronas and an Iranian business group has already existed and has been negotiating how to export gas from South Pars to Pakistan.<sup>28</sup> Reliance Industries Ltd. has disclosed to join hands with Gas Authority of India Ltd. (GAIL) as a commercial partner for the proposed gas pipeline project.<sup>29</sup> Also, the Japanese Sumitomo Mitsui Banking Corporation (SMBC) has indicated its readiness to fund it through a letter to the Indian government.<sup>30</sup> Meanwhile it was reported that Russia would be roped in the pipeline project given its ample experience in building pipelines and its interest in becoming an active partner in the project.

Negotiation on the price of the gas to be delivered has turned out to be a prolonged exercise as supplier Iran and consumers India and Pakistan press for the most beneficial terms. On 16 March 2005, Mani Shankar Aiyar was reported to have said that his country might withdraw from the gas deal given the high price Iran had been asking for its gas. He said, "We will not buy gas from Iran if we cannot sell it in India".<sup>31</sup> Iran has been asking gas price being closer to LNG prices, which are in the range of \$3 to \$4.0 per mBtu (million British thermal unit), whereas India and Pakistan have been looking at a cost of \$2.0 to \$2.5 per mBtu of gas.<sup>32</sup> It was reported that the main Indian consumers, the fertilizer and power sector were unwilling to pay more than \$3 per mBtu of gas.

After the two days meeting of the Joint Working Group in July 2005, India and Pakistan agreed that 'affordability' would be their key concern, while discussing gas price with Iran.<sup>33</sup> For India, the cost would be a bit higher since in addition to the wellhead price of the gas the country would have to pay transit fee to Pakistan and bear

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<sup>28</sup> *The Times of India*, 8 March 2005.

<sup>29</sup> Anupama Airy (2004), "Iran gas: Ril, Gail will study onshore option", *The Indian Express*, 9 February 2004

<sup>30</sup> See Devraj, n.7.

<sup>31</sup> Bill Samii (2005), "Iran-Pakistan-India Gas Pipeline Imperiled", [Online: web] Accessed 10 December 2005, URL: [http://www.parstimes.com/news/archive/2005/rfe/iran-india\\_pipeline.html](http://www.parstimes.com/news/archive/2005/rfe/iran-india_pipeline.html)

<sup>32</sup> *The Financial Express*, New Delhi, 14 July 2005.

<sup>33</sup> *The Indian Express*, 14 July 2005.

the cost of transportation of gas. The transit fee would be around \$500 to \$600 million a year.

After the initiation of work on the pipeline project, it will take at least three years to complete the pipeline. Since Pakistan has announced that the construction of the pipeline would start by April 2007, gas supply to Pakistan and India might start by 2010.

#### **4. HURDLES TO THE PIPELINE**

It is true that the proposed pipeline is fraught with political and security related problems which have to be satisfactorily addressed to fructify the project. While it was the Indo-Pak strained relations that delayed the pipeline earlier, other factors such as US opposition and its sanctions, and the pipeline security in the restive Balochistan province in Pakistan have become the main obstacles to the project lately.

##### **4.1 Balochistan**

The area of Balochistan-Punjab border is one of Pakistan's poorest area and its most restive province. In the last few years, it has been a battleground of private militias belonging to Baloch tribes. The area has witnessed sporadic armed clashes resulting in attacks on water pipelines, power transmission lines, and gas installations. Much of the Iran-Pakistan-India gas pipeline will also run through the restive homeland of the Baloch, straddling between the boundaries of Iran and Pakistan.

Balochistan is strategically important for Pakistan due to its large reserves of oil and gas. However, these riches did little for the people of the region. Pakistan has failed to provide a fair share of oil and gas wealth to the Baloch people. Thus, lack of economic progress and a deep sense of disaffection have contributed to the mistrust against the Pakistani government, which led the tribes to oppose any mega energy projects in their

area. Such is the case in Balochistan that Pakistan will have its work cut out in demonstrating that it can ensure the safety of the pipeline to India.<sup>34</sup>

In January 2003, a gas pipeline was sabotaged in Sui, which cut off the supply to the Punjab province.<sup>35</sup> Again, in June the same year, there were several attacks on gas installations causing the government to send troops to protect the installations. Although the confrontation was defused in that year, the underlying grievances of the people were not addressed. In order to quell the resentment of the Baloch tribes, Islamabad increased investment for regional development in the area. However, violence seems to have resurfaced and the region has been sliding into a near war situation.

In January 2005, the Baloch Liberation Front (BLF) fired rockets at pipelines and exchanged gunfire with security forces for several hours. During the gun battle, a pipeline caught fire and disrupted supply to a power plant. In another separate incident, the BLF launched an attack on the pipeline close to Sui Township, 250 miles north of Karachi. Rockets were also launched to the main pipeline supplying gas to Sind and Punjab provinces but did not cause any major damage. On 11 January, Baloch gunmen stormed facilities operated by state-run Pakistan Petroleum Ltd. (PPL) in Sui, overpowered the guards and damaged pipelines and a purification plant. These attacks have disrupted gas supply and power generation as well as work in fertilisers and chemical plants in Pakistan<sup>36</sup>.

Given this scenario, many believe that the recent attacks on the pipelines were meant to sabotage the Iran-Pakistan-India pipeline project as well as other projects connecting Sui gas installations with Turkmenistan gas fields. Nonetheless, General Musharaf has warned the Baloch tribesmen to stop their violence, threatening to use force and thus showing Pakistani commitment to pursue the pipeline project.

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<sup>34</sup> *The Indian Express*, 15 July 2005.

<sup>35</sup> Sanjay Dutta (2003), "Pak tribals blow up Khatami's hopes of piping gas to India", *The Times of India*, 25 January 2003.

<sup>36</sup> For details on this issue, see Gal Luft (2005), "Iran-Pakistan-India Pipeline: The Baloch Wildcard", [Online: web] Accessed 10 December 2005. URL: <http://www.iags.org/no115042.htm>

## 4.2 US Opposition

Initially the United States did not have to pitch in given the relations between India and Pakistan. But after the two South Asian rivals suspended their differences and initiated the peace process, the United States objection to the pipeline became more explicit. The tipping point of its opposition came when the three countries began seriously to consider the construction of the pipeline. America has been basing its opposition to the proposed pipeline on the argument that it would help Iran, a country, which the Bush administration has designated as a member of the 'axis of evil'. The US thinks the revenue from the gas would be used by Iran for sponsoring terrorism and for developing Weapons of Mass Destruction.

The US Secretary of State, Condoleezza Rice for the first time publicly aired her concerns about the prospective deal during her visit to New Delhi in March 2005. She said that the US had conveyed its 'concerns' to India on the gas pipeline. "Our ambassador (to India) has made statements in that regard. So, those concerns are well known to India," Rice said. While the US is opposed to the pipeline, it also faces a dilemma, as it did not want to vitiate the relations it has been building with India and Pakistan. The 'concerns', which Rice expressed in New Delhi about the project was an attempt to find a middle path. She said, "We do have our concerns but we intend also to look at this as a broader problem. We do not need to look at the broader question of how India meets its energy needs in the next decade. It's an expanding economy." If this view appeared to be ambivalent, Rice specifically suggested, "We believe that a broad energy dialogue should be launched with India because the needs are there. Given the technological sophistication of our economy, India's economy, we can explore the possibility of new technologies."<sup>37</sup> This implies that the Iran-Pakistan-India gas pipeline has become a double-edged weapon for US. Although its national interest is not to allow Iran to develop nuclear weapons by pressuring and isolating it, the US also does not want to be seen coming in the way of the Indo-Pak rapprochement through the economic

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<sup>37</sup> Andy Mukherjee (2005), "India needs it, and Iran has it", *International Herald Tribune*, Hyderabad, 18 March 2005.

benefits of the pipeline.<sup>38</sup> America has long pressed for dialogue and reconciliation in South Asia but its preoccupation with Iran has pushed it into opposing something that can become an important building block for better ties in South Asia.

American opposition became more intense after the election of Mahmoud Ahmadinejad – the conservative former Mayor of Tehran who won the June elections and proclaimed that his country would go ahead with the nuclear enrichment programme. Senior US officials declared on 17 June 2005 to Indian media, “The pipeline project is a mistake because it would provide revenue to the Iranian regime, which we believe, will use the funds to manufacture Weapons of Mass Destruction.”<sup>39</sup> Voicing its concern over the project, the US said that it was sharing its feelings with the two South Asian nations in a ‘constructive manner’ and not in a ‘negative way’. “We have communicated our concerns to both Pakistan and India about this but we have very positive relations with Pakistan and India,” Condoleezza Rice said. When asked how seriously or what degree of opposition America really has towards the 2775 long kilometres pipeline project, Rice told reporters,

“The amazing thing is that we have managed to have positive relations with India and a very positive relationship with Pakistan that includes defence cooperation. And so I think it demonstrates that we are de-linking the India-Pakistan..... and I think it shows in a sense, they are too, because we find quite remarkable and very encouraging the move of Pakistan and India towards a greater rapprochement between them and we want to be supportive of those trends.”<sup>40</sup>

While this view reveals the dilemma of the US regarding the pipeline project, in a separate message to Pakistan in August 2005, the United States asked Islamabad to find other alternatives. US Assistant Secretary of State, Christina Rocca said that America was conscious of Pakistan’s energy needs and would begin a dialogue to assist Islamabad meet its growing energy requirements. During a video conferencing session with a group of Pakistani Journalists from Washington in early August 2005, Rocca reiterated Washington’s opposition to the gas pipeline project and said Islamabad and New Delhi should explore alternative sources for meeting their energy need. She maintained that the

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<sup>38</sup> Amitav Ranjan (2005), “Diplomatic diligence OK on Iran Pipeline”, *The Indian Express*, 21 May 2005.

<sup>39</sup> Salman Haidar (2005), “Pipeline Politics”, *The Statesman*, New Delhi, 21 June 2005.

<sup>40</sup> *The Times of India*, 18 June 2005.

US believes it was not the right time to invest in Iran's gas and oil sector. She said, "We would support this gas and oil coming from somewhere else." She further went on and said that investment in Iran's oil and gas sector would be 'a bad idea' as the US would be beefing up the laws passed by Congress, which would attract sanctions on any investments in Iranian oil and gas sector.<sup>41</sup> Rocca was referring to the Iran-Libya Sanctions Act which can impose sanctions against any firm that invest more than \$20 million a year in Iran's oil and gas sector.

As such, the United States has been persuading India and Pakistan to desist from implementing the pipeline. Many observers believe that the 18 July 2005 nuclear energy agreement between India and America was an incentive for the former to withdraw from the pipeline project. The agreement has given the US more leverage over India to coax it into withdrawing from the project.<sup>42</sup>

However, it is reassuring that Secretary of State Rice has indicated that the United States would not use the threat of sanctions to make India and Pakistan abandon the project. Significantly India and Pakistan have agreed to move ahead with the project despite the US opposition. As leaders of the three countries involved in the project have conveyed their full political support to the project and have shown their deep interest in its successful outcome, the US could not do much on the pipeline project and seems to have retreated from its earlier position of threatening with sanctions. Although it still has opposition to the project.

Iran hopes that New Delhi and Islamabad would demonstrate that they can do what is in their national interests even if they have to stand up to Washington and defy its wishes. For Iran, venturing the project with India and Pakistan would be a model for similar arrangements for the transportation of gas from Central Asia and Transcaucasus region through its territory to South Asia.

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<sup>41</sup> Muralidhar Reddy (2005), "Not the right time to invest in Iran gas, says Rocca", *The Hindu*, 4 August 2005.

<sup>42</sup> Seema Sridhar (September 2-8, 2005), "Iran-India Pipeline: One Step Forward, Two Steps Back?", *Mainstream*, New Delhi, 43 (36): pp.11-12.



## 5. PROSPECTS OF THE PIPELINE FOR IRAN

It is not without significance that despite the cost, technological and logistical requirements of the pipeline project have been daunting; the Iranians persist to implement it. Iranian Deputy Oil Minister, Hadi Nejad Hosseini said that the proposed pipeline was important strategically for Iran. Iran is confident that the project would not face any problem because of the US sanctions against it, as these have not been implemented over the last 10 years. Its officials are never tired of pointing out that despite ILSA, American companies are merrily doing business with Iran, albeit through subsidiaries and third parties.

The prospects of the pipeline for Iran have to be seen not only on the economic angle, which many consider it only a commercial project. But this pipeline has a bigger picture, which encompasses issues such as political, regional, social and multi-lateral. The reality of this pipeline represents the notion that economic collaboration can change regional politics and alter the social and political landscape of the countries involved.

### **5.1 India and Pakistan: Markets for Iran's Gas**

The growth of a country's economy is critically dependent on the performance and development of its energy sector. India is ranked as the sixth largest energy consumer in the world. Structural changes in the economy have led to the expansion of the industrial base and services sector in India, thereby propelling a massive increase in demand for energy. India's energy generation sector has not been able to keep pace and expand at a desirable level. A developing country like India with huge population is coping to have access to modern state-of-the-art energy services and to utilise them optimally. At the same time the impacts of pollution and greenhouse gas emissions are of rising concern.<sup>43</sup> Given this fact, India has been desperately looking for natural gas, the cleanest and cheapest fuel. India has been pursuing three options together: development

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<sup>43</sup> N. K. Singh (2004), "The energy Paradigm: Back to the future", *The Indian Express*, 14 December 2004.

of domestic resources; pursuit of long-term LNG contracts; and participation in transnational gas pipeline projects.

India depends on imported energy – 76 percent of oil, 20 percent of gas and 4 percent of coal consumption. This dependence will continue and possibly escalate. Its commercial energy demand, which by far makes up the dominant share of South Asian energy demand, is projected to increase by 3.8 to 4.3 percent a year till 2020. The oil demand growth rate for India is projected at 2.3 percent per year in the low economic growth rate scenario and is the highest in Asia.<sup>44</sup>

At present, India accounts for about 50 percent of the total gas production in South Asia. Domestic availability in India is however, expected to decline in future. As per estimates made by the Group of India Hydrocarbon Vision 2025, domestic gas production in India is expected to decline by the year 2025. On the contrary, India's gas requirement will increase to 125 bcm in 2024-25. Against this, production from existing fields and discoveries is 52 bcm, leaving a gap of 77 bcm to be filled through new domestic discoveries and from imports.<sup>45</sup> While the recent discovery of offshore gas fields in the Krishna-Godavari basin and the Bombay High basin hold out the tantalising prospect of domestic production serving India's energy needs to some extent, being deep sea deposits, extraction of gas is going to be costly, time consuming and challenging. Also it will be unable to meet the increasing demand of natural gas in India's near future due to industrialisation factor.

In the case of Pakistan, the country is self-reliant in gas at the moment, with gas constituting 50 percent of its energy mix. But by 2010, it will start facing gas shortage as gas production will begin to decline and will go down considerably by 2025 unless new fields are discovered. Pakistan would be facing a shortfall of 350 mcf/d from the year

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<sup>44</sup> Himraj Dang (2005), "Gas balloons over India's Persian Gulf", *The Indian Express*, 5 October 2005.

<sup>45</sup> Talmiz Ahmad (2006), "Advantages of Transnational Gas Pipelines", *The Hindu*, 24 April 2006.

2010 and will go up to 1,691 mcf in 2015 and 3,156 mcf in 2020. The demand for gas in Pakistan is increasing by 7 to 8 percent per annum.<sup>46</sup>

Pakistan made efforts to cultivate its natural gas resources in the Southern province of Sind in a natural wild life preserve, where the dry and hilly terrain supports many endangered species and a quarter million pastoral people who refuse to give up their way of life. When the Nawaz Sharif government in 1997 invited British Premier Oil to cultivate the land into natural gas fields with the hope of discovering the predicted gas reserves, the quarter million pastoral people living there protested, refusing to give up their way of life. However, Pakistan still hopes that the development of new natural gas fields would serve to prevent energy crisis predicted in the near future. But, this hope falls short of the reality, considering the environmental concerns expressed by the pastoral communities as well as lack of industrial facilities to implement cultivation efforts.<sup>47</sup> Thus, India which is trying to secure its energy supplies by tying up long-term gas contracts, and Pakistan which will face gas shortage in the future are two countries positioned best to receive Iran's gas.

The fact that India is a huge and growing natural gas market has led to intense competition at the regional level to access India's market. Iran is facing competition from Qatar and Turkmenistan for supplying gas to India. Bangladesh and Myanmar are other potential competitors to Iran for India's market. Therefore, Iran is interested in the early implementation of the Iran-Pakistan-India pipeline project. With the state of its relations with the US, Iran does not have a range of customers, as do Abu Dhabi, Oman, Qatar and Turkmenistan. Keeping in view this fact, Iran proposed two separate gas pipelines, one for India and another for Pakistan. Its suggestion for two separate pipelines was a result of the cumulative gas demands of India and Pakistan that would exceed the proposed

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<sup>46</sup> Afzall Mahmood, "Politics of the Pipeline", [Online: web] Accessed 10 September 2005, URL:<http://www.dawn.com/2005/07/23/op.htm>.

<sup>47</sup> Shamila N. Chaudhary (2005), "Iran to India Natural Gas Pipeline: Implications for Conflict Resolution and Regionalism in India, Iran and Pakistan", [Online: web] Accessed 15 October 2005, URL: <http://www.american.edu/TED/iranpipeline.htm>

pipeline's carrying capacity.<sup>48</sup> Thus, Iran wants to export its gas at a larger scale to India and Pakistan given the markets these countries provide.

Energy security requires a diversification of supplies in the medium-term. By 2010, when the oil prices are forecast to finally weaken, India will have developed other energy import options. It is also likely that India would have tied up at least one other international pipeline and one other LNG supply, with Turkmenistan, Bangladesh or Myanmar.<sup>49</sup> With this in mind, Iran has been prodding India to get more pro-active on the proposed gas pipeline.

Given the complexities involved in the development and exporting of gas, Iran needs anchor customer for its gas. India has been a credible and long-term customer in a market still characterised by long-term, less flexible, government-to-government negotiated deals. Therefore, India along with Pakistan would be anchor customers to this new Iranian industry. The statement of President Khatami, during his visit to India in 2003, proved this. He said that India was its best customer and assured to raise the volume of crude oil export to India and invited Indian business community to invest in areas of gas and oil in his country.<sup>50</sup>

Thus, R.K. Pachauri who conceived this project rightly said that successive governments in Iran kept up the effort for the project "understandably because Iran's export market for its huge gas reserves is India."<sup>51</sup> Surely, the pipeline will provide assured demand for its gas, as India and Pakistan will face energy shortage in the future.

## **5.2 Economic Prospects**

Iran's economy, which was ravaged by its prolonged war with Iraq, has not recovered yet. Its economy has been undergoing through a bad phase. A combination of

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<sup>48</sup> *The Financial Express*, 25 October 2005.

<sup>49</sup> *ibid.*

<sup>50</sup> *The Times of India*, 28 January 2003.

<sup>51</sup> See Devraj, n.7.

high inflation and high unemployment rates has engulfed Iran lately. Between 1993 and 2001 the Islamic Republic's inflation rate fluctuated in the range 11 to 49 percent with an average figure of over 23 percent. In more recent years it has averaged about 15 percent per annum and it is rising. Official estimates put unemployment rate at about 16 percent with much higher rates among the educated young Iranians. The cost of living has doubled in the last four years. 40 percent of Iranians live below the poverty line. Iran has a rapidly increasing young population with about 70 percent of its people below 30 years. There are few job opportunities for the youth.

According to the World Bank, Iran will need growth rates comparable to those attained by China (i.e. above 7.5 percent) to be able to reduce unemployment rate to 10 percent by 2010. Iran's foreign direct investment (FDI) has been abysmal both in absolute size and comparative measure. Total net FDI amounted to \$32 million in 2001, amounting to only 0.34 percent of all FDI inflows in West Asia and North Africa. Its share of global FDI inflows was also a paltry 0.003 percent. The situations did not improve in the last two years.<sup>52</sup>

In view of its economic situation, the proposed pipeline is of paramount importance for Iran. The multi-billion-dollar project will obviously earn huge amount of foreign currency revenues, which would alleviate some of Iran's economic difficulties.<sup>53</sup> The proposed pipeline as a capital-intensive project and stretching over a thousand miles in its territory will generate substantial employment along its route. While physical construction of the pipeline will require large amount of unskilled labours, other technical aspects of the pipeline will require skilled and educated workers with backgrounds in science and technology. These workers can be recruited from abroad and within the country. Employment of skilled workers from abroad will bring the much-needed expertise for assisting Iran in building the pipeline. It will also help Iran in modernising and developing its gas fields and resources, which it has been seeking desperately. Thus,

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<sup>52</sup> For details on this issue, see Massoud Karshenas and Hassan Hakimian (March 2005), "Oil, Economic Diversification and the Democratic Process in Iran", *Iranian Studies*, New York, 38 (1): pp.67-90.

<sup>53</sup> Sadeq Dehqan (2005), "Supplying Gas to India", [Online: web] Accessed 10 September 2005, URL: <http://www.iran-daily.com/1384/2339/html/focus.htm>

creation of fresh job opportunities and speeding of the economic progress as well as foreign investment in the country are amongst the main motivations behind this project.

Iran also believes that the proposed pipeline would provide a viable means to transport the natural gas resources of Central Asia to the Subcontinent through an interconnected grid of pipelines across its territory. Iran has a large stake in Central Asia and the Caspian Sea region.

This plan of exporting natural gas of the Caspian Sea and Central Asian states along with its gas has certain advantages both for Iran and the Central Asian states. This will involve the inclusion of Central Asia and Iran's gas simultaneously, which would avoid heavy investment by both parties to export their gas. The proposed plan would create a network capable of receiving gas at any point where the possibility of production exists and could provide gas to different consumers. The security of supply for the customers is such that if one producer on political and technical reasons stops gas supply, the other producer could compensate for the loss. Another advantage of this proposal is the fact that its implementation and success requires a high level of regional cooperation and dialogue. It is evident that peace and security of the region is a pre-requisite for any major cooperative project and when completed, such a project introduces further interdependence among the countries involved.<sup>54</sup> Iran will become a hub of energy market given its geographic location. It will also earn transit fee from the Central Asian states. Most of all, a transnational gas pipeline across Iran's territory would elevate its position in the region.

### **5.3 Political Logic behind the Pipeline**

In Iran a certain section of the Majlis has been opposed to the sale of natural gas to foreign buyers. The group opposed to exports of Iran's gas and LNG contends that the

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<sup>54</sup> Narsi Ghorban (2000), "By Way of Iran: Caspian's Oil and Gas Outlet" in Hooshang Amirahmadi (ed.), *The Caspian Region at a Crossroad: Challenges of a New Frontier of Energy Development*, London: Macmillan Press Ltd. pp.153-4. Also see, the same author, (Summer 2000), "Iran's Potential Role in the Development and Utilisation of Oil and Gas of the Caspian Region", *The Iranian Journal of International Affairs*, Tehran, XII (2): p.264-73.

demand for gas would rise for both domestic consumption and oil fields injection in the next decade. They estimated that Iran needs gas injection into 30 oil fields to maintain production levels and that only a fraction of the gas required had been injected so far. Iranian Head of Energy Committee of the Majlis, Kamal Daneshyar said that 20 billion cubic feet of gas per day (bcfd) would be eventually required for oil fields injection to step up oil production, and this gas would come from the South Pars gas field.<sup>55</sup> Daneshyar was against exporting natural gas and even opposed the \$21 billion LNG deal with India. Nevertheless, the proposed Iran-Pakistan-India gas pipeline has gained relevance due to the implications of the project. For Iran, aside from the economic benefit, the pipeline has a political logic as well.

As Iran has been facing immense pressure from the US and its allies due to its nuclear programme, it hopes to get political support from India and Pakistan. Iranian Foreign Minister, Kamal Kharrazi during his visit to India in February 2005 said, "We believe India plays a very important role for us. The development on international front has had impact on all developing countries, including India." He also said that what had happened in Iraq should not happen to anywhere and added, "I believe Americans are making a great mistake by trying to resolve the problem by force."<sup>56</sup> Although Kharrazi did not explicitly ask Indian support on the nuclear issue this view tacitly explained he was seeking India's support on the issue.

He also lamented that there were states, which couldn't tolerate diffusion of power and try to arrogate in all political, cultural, economic and other fields at the expense of others. In the same vein Kharrazi pointed out wrong policies, which created further rifts between countries.

"These were: pressuring nations to adopt given values and practices; preventing others from acquiring the legitimate capabilities, adopting a distinct and controversial security strategy while invading or threatening to invade other societies; grading countries according to their adherence to given standard on human rights; terrorism, nuclear and missile proliferation; refusing to cooperate with other countries on environmental issues, applying sanctions against non-

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<sup>55</sup> Shubha Singh (13-26 August 2005), "Iran's Uneasy Agenda", *Frontline*, Chennai, 22 (17): pp.58-59.

<sup>56</sup> Kamal Kharrazi (2005), "Importance of India-Iran Relations and Its Role in the Region"; Lecture delivered on 22 February 2005, at Indian Council for World Affairs, Sapru House: New Delhi.

conforming countries, promoting one's corporate interests under the slogan of free trade and imposing desired economic and social policies on other countries and many more."<sup>57</sup>

He said such policies had undermined the whole international system. He also said that his country drew attention on the peace and stability and voiced on the significance of ethnicity, morality, and tolerance in the present world. He sought help from friendly countries, including India to promote such lofty case. Furthermore, he suggested energy (oil and gas) as a potential area where India and Iran can make significant headways with one another.

In September 2005, Iran's top nuclear negotiator Ali Larijani came to India and held discussions with Natwar Singh and Indian National Security Advisor, M. K. Narayan. He sought India's backing for Iran's position on the nuclear question and said, "Negotiations can have different forms, and if other countries have a feeling of responsibility towards this issue (nuclear), they will continue to help the security of the region." The issue of energy cooperation, including the Iran-Pakistan-India gas pipeline came up for discussion between the two nations during Larijani's visit. According to Larijani, the focus of his talks was on strategic relations and partnership in the field of energy. During the visit, the two countries also discussed ways and means of working together in international organisations. Larijani also said, "We are fully committed and bond by international regulations to the nuclear field," and added that Iran was committed to continuing its cooperation with the IAEA.<sup>58</sup> Natwar Singh paid a return visit to Iran the same month and gave India's support to Iran's peaceful and nuclear energy programme in keeping with Tehran's international obligations and commitments.<sup>59</sup> Pakistan also supported Iran on the nuclear issue. Its Prime Minister, Shaukat Aziz said while Pakistan was opposed to nuclear proliferation in any form, it believed that every country had the right to use nuclear energy for peaceful purposes in line with the IAEA guidelines. He told a group of Iranian journalists, "Pakistan will never support use of force against Iran and wants the (Iran's nuclear) issue to be settled through discussion and dialogue."

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<sup>57</sup> *ibid.*

<sup>58</sup> *The Hindu*, 1 September 2005.

<sup>59</sup> *The Hindu*, 4 September 2005.



But surprisingly, India voted against Iran at the IAEA's governing board meeting on 24 September 2005. India's decision against Iran created doubt over the fate of the pipeline project, and the LNG deal between the two countries. Iranian Foreign Ministry Spokesman, Hamid Reza Assefi expressed surprise at the manner in which India voted. Assefi said, "This resolution is illegal and unacceptable," he also added, "Iran will revise these (economic) relations, and these countries (that voted against Tehran) will suffer. Our economic and political relations are coordinated with each other."<sup>60</sup> Its Ambassador in India, S.Z. Yaghoubi was also reported to have told Indian Foreign Secretary, Shyam Saran that Tehran was very disturbed by India's stance. In a communication to the Indian Prime Minister's Office and South Block dated 24 September, India's permanent representative in Vienna, Sheelkant Sharma, wrote that his Iranian counterpart had told him the LNG deal, signed between the two sides was off. It was reported that the Iranian Ambassador in Vienna came up to Sharma after India's vote and conveyed a message from Larijani that Tehran was no longer willing to go ahead with the \$21-billion deal.<sup>61</sup>

However, after some few days from the IAEA vote, Iran clarified that it had no intentions to withdraw from the LNG deal. It said, "The agreements arrived at between the two countries are still in force and passing through their normal process". As for India's vote for the resolution, Larijani said, "We did not expect India to do so. But I believe the friend should not be judged by a single action. Iran enjoys friendly relations with India."<sup>62</sup> Iran's envoy in India Yaghoubi also met Natwar Singh and re-stated its case and assured that all bilateral issues, including energy related deals were on.

Meanwhile, there were opinions that the United States needed India to provide a cover of credibility for the indictment against Iran and that Indian government went along. India on its part maintained that its vote was to defer a reference of Iran's nuclear issue to the United Nations Security Council (UNSC) for possible sanctions. Analysts were of the opinion that Iran had seen the wisdom of India's approach for greater openness and had tone down its rhetoric. Yaghoubi (Iran's Ambassador to India) wrote

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<sup>60</sup> *The Hindu*, 25 September 2005.

<sup>61</sup> Amit Baruah (2005), "LNG deal is off: Iran", *The Hindu*, 28 September 2005.

<sup>62</sup> \_\_\_\_\_ (2005), "Iran 'not calling off' LNG deal", *The Hindu*, 29 September 2005.

an article in an Indian national newspaper (*The Hindustan Times*) and expressed his view that the recent development in the IAEA was unexpected and came as a surprise to the old friend, but said he was sure that the age-old ties and shared strategic interests of both the countries will eventually overcome these differences as well.<sup>63</sup> He again expressed his view through another national newspaper (*The Times of India*) that the history of the foreign relations of Iran shows that the country “has made use of its trade particularly energy, as a constructive factor in the growth of its national economy and also for expansion of its economic cooperation with all other countries.” In regard to its nuclear issue he wrote, “I hope that with the goodwill of all concerned parties in the IAEA we would not only witness the speedy resolution of this issue but a world based on friendship and confidence amongst all nations.”<sup>64</sup>

This view reveals that Iran still hopes to get political support from India, even after the latter voted against it at the IAEA resolution over its nuclear programme. No doubt, it will sell its gas to India considering the political and economic relations it has with the West. It is through its oil and gas resources that Iran has been trying to forge closer economic and political relations with other countries. For this reason, Iran has been urging India to expedite the pipeline project.

#### **5.4 Regional Cooperation**

Way back in 1993, Ali Khorram Advisor to the Foreign Minister of Iran expressed the need for a regional cooperation in South West Asia, which should include Iran, India and China in order to check Western influence in the region. He lamented,

“In order to compensate for their shortcoming towards development and technology, some Asians have look to the West, disregarding their own rich heritage. For the purpose of gaining technological know-how, they have not resisted the ‘Western Cultural Invasions’. However, if this trend continues it will ultimately lead to the demise or atleast the weakening of the Asian culture and identity, which will only be in the interest of the West. I do not mean here to deny the need for cooperation with the West in the scientific, technological and economic areas but rather to emphasise cooperation on the basis of our cultural

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<sup>63</sup> S. Z. Yaghoubi (2005), “Highlighting Iran’s Record of Co-operation with IAEA”, *The Hindustan Times*, 1 October 2005.

<sup>64</sup> \_\_\_\_\_ (2005), “Atoms for Peace”, *The Times of India*, 13 October 2005.

identity. Only this kind of cooperation can lead to peace and stability in Asia and the World.”<sup>65</sup>

This view explains the difficulties of Iran in finding allies in the region because many of the Arab countries had been, and still they are strong allies of the United States, who depend heavily on it. It also explains that Iran has been looking for a platform, where Asian countries could form an alliance of economic and regional cooperation thereby minimising their dependence on the West.

Iran feels that the three countries with their rich culture would become the vanguards in the survival of Asian identity, thereby establishing cooperation in different fields. It also hopes that China and India together can generate scientific and technological advances and economic prosperity, which will enhance peace and progress in Asia. On its part, Iran is ready to utilise its vast natural resources (oil and gas) for the development of all Asia.<sup>66</sup>

In recent years, Iran has started paying special attention to the East and Asian countries like India, China and Pakistan. The reason behind this policy is explained by the state of its relations with the West and with its Arab neighbours. Iran’s antagonism with America and its European allies have increased due to the recent development over its nuclear issue. Although Iran has established ties with many Arab countries, American presence will continue in the region, given the fact that GCC monarchs are strong allies of the US politically, militarily and economically. Moreover, it has instable neighbours - Iraq and Afghanistan. Aware of all these facts, Iran has been trying to establish regional economic cooperation and integration with South and East Asian countries for its survival strategy. It is with this hope that Iran has signed the \$100 billion LNG deal with China and has been actively pushing the two South Asian countries for the early execution of the proposed gas pipeline.

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<sup>65</sup> Ali Khorram (1993), “Joint Cooperation between China, India and Iran”, Paper presented on 16 December 1993, at the International Centre of India: New Delhi.

<sup>66</sup> *ibid.*

Iran is of the opinion that there should be a major hub and growth pole through cooperation and market access in South West Asia. It hopes the trilateral gas pipeline can level the play field for creation of a new pole of growth and a bigger market through which a range of economic activities will be generated. It also hopes the materialisation of the pipeline would be reminiscent of the ancient Silk Route, which was the main artery for economic activities through exchange of silk and other commodities from East to West and vice versa.<sup>67</sup> Thus, it believes this would symbolise a new era of Silk Route marked by a strategic gas pipeline from West to South Asia and beyond.

Iranian political leaders are never tired of emphasising on the regional context of the project. Its Foreign Minister, Manouchehr Mottaki said that the pipeline would guarantee peace and development in the region. Iran believes the significance of the pipeline lies in inducing growth and prosperity not only amongst the parties involved but also through the bigger region surrounding them. Its new President Ahmadinejad also said that his country would like to have good relations with its neighbours, Asian countries and countries with traditional ties with Iran, such as India, China, Russia and Pakistan through projects such as the Iran-Pakistan-India gas pipeline.<sup>68</sup>

For Iran, the pipeline is not an end in itself, but it is also a means to redefine its relations with India and Pakistan. Considering the increasing demand of energy in India and Pakistan, and the involvement of multiple participants in the project all stakeholders are expected to raise their mutual diplomatic and other multilateral relations several notches higher.<sup>69</sup> That is why it has been frenetically pushing the project in the furtherance of an agenda that will see Iran drawn into a distinct multipolar orbit involving India, Pakistan, and Iran and in time China.

### **5.5 Circumventing the US Sanctions**

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<sup>67</sup> Ali Majedi (2004), "The Transit Pipeline across Iran, Pakistan and India, Helps Consolidate Relations", Speech delivered on 15 December 2004, during a forum for Iranian gas exports to Pakistan and India, in New Delhi.

<sup>68</sup> See *The Hindu*, n.59.

<sup>69</sup> [Online: web] Accessed 10 October 2005, URL: <http://www.assaluyah.com/articles.php?86-en>

The Iran-Pakistan-India gas pipeline project has created a major foreign policy challenge for the United States as it tries to balance with its interests in South Asia and with its objective to contain Iran. While it does not want to be seen coming in the way of rapprochement between India and Pakistan through the benefits of the gas pipeline, it is opposed to the Iranian gas pipeline because it scuttles its efforts to isolate Iran. US officials view the pipeline as a clever move by Tehran to use its natural gas resources to gain leverage in South Asia and defeat its design to isolate Iran.<sup>70</sup> For this reason, the US has been coaxing India publicly not to go ahead with the pipeline and has offered other alternative for India's energy security through civil nuclear cooperation. But despite the US opposition, India and Pakistan have shown their firm resolves to participate in the pipeline project.

Here, it is noteworthy that for both America and Iran, India is crucial for any strengthening of cooperative process in Asia, as India is a fast developing and an important regional power. But for the US, India's participation in the pipeline project has created a classic foreign policy squeeze. On the contrary, Iran has gained political leverage, as the pipeline would help anchor friendly ties among Iran, India and Pakistan. This would greatly undermine US strategic leverage with India and Pakistan against Iran in the future.<sup>71</sup> Suitably placed as a natural transit corridor for the transportation of Central Asian and Caspian Sea oil and gas, and being the owner of the second largest gas reserves in the world, the pipeline would set a precedent for other countries to follow India and Pakistan to invest in Iran's oil and gas fields and conclude similar pipeline agreements. This can potentially circumvent the US sanctions and foil its policy of isolating Iran.

## 6. CONCLUSION

The Iran-Pakistan-India gas pipeline which was formally signed in 1993, fell victim to the soured relationship between India and Pakistan. However, it has been

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<sup>70</sup> See Mahmood, n.46.

<sup>71</sup> Atul Aneja (2005), "India and Iran: a time for reflection", *The Hindu*, 25 August 2005.

revived after the stalemate ended and the initiation of peace process between the two countries. The last few years have witnessed keen negotiation from the three countries despite the manifold obstacles, and they have agreed to implement the pipeline. The political support that the three countries have been giving to the project implies that the pipeline has a bigger picture than a mere 'commercial' project. No doubt the pipeline is a 'win-win' project for all the parties involved. For energy hungry India and Pakistan, an alliance through gas pipeline for energy security makes good economic sense. This pipeline is also rightly dubbed as 'the peace pipeline' as it would help India and Pakistan in resolving the conflict on Kashmir between them.

For Iran, the pipeline is of paramount importance. The pipeline will assure ready made markets for its huge gas reserves, as India and Pakistan are emerging as increasingly gas consuming countries. The revenue from the gas would help Iran to ameliorate its economic difficulties and meet the demand of modernisation. In addition to the market for its gas and the revenue, Iran hopes to gain political support from India and Pakistan as it is facing immense pressure because of its nuclear programme. In its efforts to check American influence in the region, its good relations with Pakistan and India have become strategically important. The pipeline would lead to transformation of social and political discourse leading to mediation and resolution of regional conflicts and ultimately regional economic integration, which Iran has been seeking for. The operationalisation of the pipeline would demonstrate international acceptance of Iran and defeat America's policy of isolating Iran.

It is clear from the foregoing discussions that in the wake of its sagging economy, economic sanctions by the US and immense Western pressure, the pipeline will provide Iran a way out of the dilemma. The positive aspects of the pipeline seem to be too appealing for Iran to let it get jeopardised.

# *Chapter V*

## *Chapter V*

### CONCLUSIONS

It is clear from the forgoing discussions that after the Iran-Iraq war, Iran changed its domestic and foreign policy. The main objectives were to reconstruct the war ravaged economy and come out of its isolation. Thus, Iranian leaders publicly declared that Iran should look towards reform as well as closer contacts with the outside world. It therefore, made efforts to re-establish its relations with the Gulf monarchies, Egypt, Jordan and Tunisia. Its constitution was amended to strengthen the executive. It also adopted new economic policies through the structural adjustment programme and the first Five-Year Economic Plan was introduced in 1989. Initially, the underlying strategic political environment was negative. There was distrust against Iran in the outside world due to its image, which was firmly established during the Islamic Revolution. Nevertheless, Iran made efforts to manoeuvre its foreign policy through a pragmatic approach. As a consequence to this approach, Iran's relations with its neighbours were improved. Iran reached a rapprochement with Saudi Arabia after several years of mutual recriminations. Relations with Egypt, Kuwait, Qatar and Turkey were improved. Iran also played a positive role in the Caucasus and Central Asian region. Thus, Iran strengthened its economic and political relations with its neighbours.

After the Soviet disintegration, Iran saw Russia as a counterbalance to the United States. It gave special importance to Russia to improve its economic and political relations, as it needed technology, machines and defence technology as well as political support. Eventually, Iran got Russia's political support at both the international and regional levels. Russia supported the construction of the Iran-Turkmenistan gas pipeline. Brushing aside the US opposition, it also sold weapons to Iran, built nuclear stations in Iran and assisted Iran with new technologies, which were denied by other countries.



Another significant result of its foreign policy reform was the improvement in its relations with the European Union. The European Union objection to the US sanctions (ILSA), and its engagement with Iran through the so called 'Critical Dialogue' was a revelation of the rapprochement between the two entities. EU countries invested substantially in Iran's oil and gas sector. Some EU countries proved more willing than others to accommodate Iran - France being the most prominent one. France signed the deal, which the American firm Conoco had cancelled after the US passed the President's Executive Order 12957.

However, it has to be noted that Iran's foreign policy implementation during the terms of both presidents Rafsanjani and Khatami had been slow and erratic. The main reason was due to the existing hierarchical structure of the Islamic Republic, and its institutional arrangement. The question still remains as to whether post-revolutionary Iran is a republic based on the sovereignty of the people or theocracy based on the sovereignty of God, as interpreted by religious clerics. This duality remains integral to the institutional arrangement of the Islamic Republic, affecting both internal and foreign policy. The elected legislature and executive are subordinates to those non-elected centres of power. The supreme leader, who is a non-elected entity, has the power to veto any decision taken by the legislature. Thus, quite often Iran follows policies that appear more ideological than justifiable, even though at other times pragmatic policies predominate.

Another hindrance to its foreign policy implementation has been the state of its relations with the United States. Since the Islamic Revolution, America has designed a policy to contain Iran. The United States considers Iran as a threat to its interests in West Asia, and a threat to the security and stability of the international community due to Iran's nuclear programme. After Clinton assumed power in America, he initiated a new wave of hostile policies towards Iran and passed the Iran-Libya Sanctions Act in 1996. However, the election of Khatami in 1997 and his new approach towards America resulted in some flexibility in US policy towards Iran. After Khatami expressed his willingness to start relations with America, there occurred programme of exchanges between the two countries, which involved scholars, filmmakers, artists and athletes. But the underlying

difference between the two countries did not permit the initiatives to be sustained. Their relations have reached a critical juncture due to Iran's nuclear programme. On the whole, the institutional arrangements within the country and its confrontation with the United States have been the major constraints to its foreign policy.

Nevertheless, one significant policy measure which Iran has successfully implemented is in its oil and gas sector. Being the owner of the second largest gas reserves in the world, Iran has adopted several measures to attract outside countries and companies in its gas fields. It has utilised its natural gas as a tool to build economic and political relations with several countries. In order to attract foreign capital and investment in its gas fields, laws such as 'Service Contracts' or 'Buy-Back' arrangement and 'Law for Attraction and Protection of Foreign Investment' were introduced.

Iran's policy has been complimented by the growing energy demand globally. Thus, Iran has signed gas deals and gas pipeline projects with countries such as, Turkey, China, Greece, Armenia, Azerbaijan, India, Pakistan, etc. Despite the US sanctions, these countries did not hesitate to invest in Iran's gas fields as they could not meet their growing energy demand with their own resources. Thus, natural gas has been the dominant factor in Iran's relations with these countries. Iran has gained leverage both economically and politically through its natural gas. It has given Iran a means to demonstrate its international acceptance and circumvent the US sanctions. Also, exporting of gas has created new job opportunities and given impetus to its economic development.

A very significant aspect of gas deals and pipeline projects is that they are long-term and involve multi billion dollars. In the case of pipelines they involve complex issues, from the security of pipelines to finding financial institutions. However, once implemented pipelines are there to stay for a long time. Thus, countries which have signed LNG deals and gas pipeline projects are bound and expected to improve their relations with Iran. The Iran-Pakistan-India gas pipeline project has been an example in this case. The preceding discussions have shown that the project has been helping Iran to improve its relations with India and Pakistan after the project was formally proposed in 1993. The agreement on the

pipeline has opened new opportunities for Iran to cooperate with these two South Asian countries in other fields, apart from the hydrocarbon sector.

Since 1993, Iran's relations with India have improved palpably and are today poised for quantum leap. Increased cooperation between the two countries can be seen on regional, political and economic issues.

When the Taliban regime was ruling Afghanistan, the two countries supported the Northern Alliance in toppling the Taliban regime. After the downfall of the Taliban, they have been actively participating in rebuilding Afghanistan. Iran and India have been working for extending the Iranian road network to Afghanistan. India's construction activity is centred in Afghanistan between Zarang and Delaram. Iran has been working on refurbishing a road system via Zahedan and Zabol, which is located at the Iran-Afghanistan-Pakistan border junction. Once completed the Iranian road network would enable traffic to move towards the Central Asian republics and Russia. Furthermore, they have been deliberating over transit rights that would enable speedy transfer of Indian goods to Central Asia through the North-South Corridor and have discussed various ways to transit Indian goods via the port of Chahbahar to Bam.

Also, Iran has expanded its trade relations with India. Trade between the two countries expanded from a mere \$480 million in 1993 to \$3 billion in 2004. They have concluded a \$21 billion worth LNG deal. Iran has permitted Indian companies to develop its Yadavaran and Jufyer oil fields. Indian companies have invested in Iran in various areas such, as pharmaceuticals, IT, biotechnology etc. Thus, relations between the two countries have improved considerably in all fields. This shows that the pipeline project has given impetus to the relations between the two nations.

In the case of its relations with Pakistan, the contending issue on Afghanistan created misunderstanding between the two countries in the past. However, after the Taliban regime was routed out from Afghanistan, they have been making efforts in accommodating each other's economic and strategic interests. The relations between the two countries have

shown remarkable improvement in various fields such as, economic, political, defence, security and regional issues.

The changes which have taken place in Iran's relations with India and Pakistan exemplify how energy ties possess the ability to engender as well as transform social and political discourse between (and amongst) countries. It also shows that Iran has been utilising its gas for building relations with India and Pakistan. At another level, it shows that India and Pakistan, which require gas, have been courting Iran by building goodwill and strengthening bilateral trade relations.

In view of the changes natural gas has made in Iran's economy and its relations with other countries, it has to be reiterated that the Iran-Pakistan-India gas pipeline project would be of paramount importance for Iran. It is obvious that the revenue from the gas would help Iran in easing its economic difficulties. Also, the pipeline will create a major industrial infrastructure in Iran, generating new jobs for the people. In addition to these, once operational the pipeline can influence Iran's relations with India and Pakistan. This would greatly undermine US strategic policy with India and Pakistan, and its policy of isolating Iran. Another implication of the pipeline is that of regional cooperation. Global energy realignments point a pronounced shift towards regional sources of supply, buttressed by long-term political and economic relationship. Thus, the pipeline would help the three countries to resolve conflicting issues and lead to regional economic and political cooperation. Thus, Iran's unending effort in pursuing India and Pakistan for the pipeline project has much to do with the apparent economic difficulties it is facing and the state of its relations with the West.

Meanwhile, the gas pipeline will also benefit India and Pakistan. The pipeline would provide assured gas supply to meet their domestic and industrial requirements. Most importantly, a gas pipeline to India across Pakistan will add huge economic incentive to the strengthening of bilateral relations and resolving conflicts, including Kashmir, between the two countries. The gas pipeline across the three nations would constitute an important aspect of strategic geography. Therefore, it is not without significance that despite of the

US opposition, threats to the security of the pipeline and other obstacles, the three countries have shown their resolve to push forward the project.

Even though, the parties involved in the project have agreed to implement the pipeline, the safety of the pipeline route as well as the price of the gas continue to be issues of concern. A major concern for India has been the recent attacks on Sui pipeline and gas installations by Baloch tribesmen, as the proposed pipeline will also pass through the territory of Balochistan. Thus India has repeatedly voiced its concern to Pakistan and Iran with regard to the security of the pipeline.

Another aspect which needs to be addressed is the US opposition to the pipeline. Although, Secretary of State Condoleezza Rice has indicated that the US would not use the threat of sanctions to deter the project, many analysts consider the Indo-US nuclear deal as a move by Washington to dissuade India from the pipeline. It has also to be noted that America has extended the Iran-Libya Sanctions Act (ILSA of 1996) for another five years in August 2001. The sanctions could obstruct the implementation of the project as it would discourage financial institutions ready to finance it.

They also need to solve the existing divergence of views over the mode of payment. While India prefers a 'supply-or-pay' contract, in which Iran must deliver gas to the Indian border or pay for the contracted quantity, Iran favours the 'take-or-pay' arrangement, in which India must pay for the agreed amount of gas even if it did not take the delivery. Price of the gas to be delivered is another issue which has to be mutually agreed.

No doubt, the Iran-Pakistan-India gas pipeline is the most feasible and economical way for Iran to export its gas to the Indian Subcontinent. It is also a project which will be beneficial for all the parties involved. However, the pending obstacles mentioned above have to be solved collectively to fructify the project. Since India's main concern is the security of the pipeline, Pakistan has to guarantee uninterrupted supply to India and provide security to the pipeline in sensitive areas where the pipeline could come under attack from terrorist organisations. Iran needs to be flexible on the price of the gas. In view of the larger

energy game being played on the world stage, Iran has to demonstrate that it is keen on strategic cooperation with India and Pakistan by supplying gas to the two countries at a reasonable price. India should guard the project from getting entangled in the Indo-US nuclear agreement and has to demonstrate that it can do what is in its national interest, even if it has to stand up to Washington and defy its wishes.

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