

India-Iran Relations: A farewell to the gas pipeline?

Has the project been suspended following US pressures?

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Global Research, July 23, 2005

The Hindu 23 July 2005

Region: [Asia](#)

Theme: [Oil and Energy](#)

BUSINESSMEN AND economists who have misgivings about the creditworthiness of one of their projects do not usually advertise that fact when they are in the market for a loan. Which is why it was surprising to see Prime Minister Manmohan Singh being so candid [in an interview to the Washington Post on Wednesday](#) on the bankability of the proposed gas pipeline from Iran.

Asked about India's discussions with Iran on the pipeline, the Prime Minister said India desperately needed new sources of energy. He then added: "But I am realistic enough to realise that there are many risks, because considering all the uncertainties of the situation there in Iran, I don't know if any international consortium of bankers would probably underwrite this."

Whether he deliberately meant to do so or not, Dr. Singh's last sentence is likely to knock the stuffing out of the ambitious project's financial prospects. What the Prime Minister has done is to give international bankers — who were not exactly queuing up anyway because of the fear of U.S. sanctions — a good reason not to touch the project, which is vital to India's energy security in the near to medium term.

In what is another first in the Indian discourse on the pipeline, the Prime Minister has linked the riskiness of the project to "the uncertainties of the situation there in Iran." This is, presumably, a reference to the election of Mohammed Ahmadinejad as President of Iran earlier this month. Or, more precisely, to the negative reaction in Washington to the Iranian electorate's choice of a man the U.S. says is a "hardliner."

Shift in India's stand?

Taken together with Monday's deal on nuclear energy with the United States, the Prime Minister's new-found scepticism on the Iran pipeline will heighten the suspicion that the Bush administration is extracting a very heavy price from India in exchange for recognising it as a state with "advanced nuclear technology." Though Dr. Singh told reporters prior to his departure from Washington on Thursday that a decision on the pipeline belonged to India, Iran and Pakistan alone and that "outside parties" had no role to play, his remarks to the Washington Post certainly suggest a major shift in the Indian position is already under way.

Now that the [grand energy 'bargain' has been struck in Washington](#), one can safely predict that the tone and tenor of discussions about the pipeline within the "strategic community" in India will shift from qualified support to outright hostility. All the old arguments — about

becoming dependent on Pakistan, paying transit fees to the Musharraf regime, wanting reverse transit rights, safety and security — will be recycled in order to justify walking away from a project which Dr. Singh himself so boldly put onto the energy and diplomatic agenda of the country earlier this year.

In proposing an “energy dialogue” with India when she was in New Delhi in March, U.S. Secretary of State Condoleezza Rice was the first to explicitly link U.S. flexibility on the nuclear question to the Iran pipeline. Her advice that India abandon the Iranian project drew a spirited public rebuttal from External Affairs Minister Natwar Singh but a lot has changed since then. For one, the unexpected election of Mr. Ahmadinejad has forced the Bush administration to rework its sums, as have the recent attempts by China to speak of a new security framework for Asia and [the Shanghai Cooperation Organisation’s call for the U.S. to declare when its troops will leave Central Asia](#). For another, the Manmohan Singh government itself showed a new willingness to engage with America’s strategic agenda in Asia.

On Monday, Washington delivered on its promise of an agreement on the nuclear front. If the [new U.S.-India defence framework](#) took New Delhi up to the door, the key to its unlocking lay in the safeguards and test ban concessions India made. What is left now is the implementation. And India has been told in no uncertain terms that if Congress is to legislate the changes President Bush has committed — he could have used a Presidential waiver but chose not to — the pipeline deal with Iran must not go through.

Those who argue that this condition is an acceptable price to pay do not realise the crucial role hydrocarbons — and in particular natural gas — will have to play as a source of energy for India’s growing economy.

Nuclear energy today provides barely four per cent of India’s energy needs. If the Bush administration is able to implement its commitments, the Indian nuclear energy sector could potentially get a boost in the short-term, though many former and serving scientists in the Department of Atomic Energy have grave reservations about the compromises the Indian side will have to make. Even with the most optimistic predictions, however, nuclear power will generate, at best, some 20 per cent of our energy needs by 2030. Where is the remaining 80 per cent going to come from?

Piped gas from Iran is a low-cost source but even this would need to be supplemented by gas imports from Myanmar, Qatar, and Central Asia. Importing gas in liquefied form is an option but the costs are much higher. Security of transit through Pakistan remains an issue but there are a number of financial and political solutions available, including the involvement of China as the end-point of the pipeline.

The Iranian project is not only vital for India’s medium-term energy security, it is also the key which will help us unlock the potential of [a pan-Asian energy grid involving Central Asia and China](#) as well. U.S. opposition to the pipeline is not just because of its antipathy to the Islamic regime that is in power there. It is because Washington knows the involvement of Iran in this kind of project will undo the efforts it has made all these years to dominate the transit routes of Asian energy. Losing interest in the project — or discouraging potential investors from getting involved — is the last thing India should be doing.

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