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## India's Energy Options in Central Asia

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By Stephen Blank • Series Editor: Maria Sultan

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## India's Energy Options in Central Asia

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India's Energy Options in Central Asia  
Professor Stephen Blank

*Abstract*

*There can be no denying the importance of reliable access to foreign energy for India in general, and of access to Central Asian energy resources in particular. As Prime Minister Manmohan Singh observed to the Financial Times, “energy security is second only in our scheme of things to food security. Singh also stated that “energy security is the most important of the emerging dimensions of our strategic partnership” with Russia. In this paper Professor Stephen Blank analyses India’s energy security options and the risks involved in pipeline infrastructure in the region.*

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## India's Energy Options in Central Asia

Professor Stephen Blank

### Introduction

There can be no denying the importance of reliable access to foreign energy for India in general, and of access to Central Asian energy resources in particular. As Prime Minister Manmohan Singh observed to the *Financial Times*, “energy security is second only in our scheme of things <sup>1</sup> to food security. Singh also stated that “energy security is the most important of the emerging dimensions of our strategic partnership” with Russia, that it seeks a long-term partnership with Moscow in energy, and that the energy relationship with Moscow can transform all of India’s economic ties to Russia.<sup>2</sup> Since Russian energy can

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<sup>1</sup> Luce and Peel, p. 5; Quentin Peel, “India’s Terms of Engagement,” *Financial Times*, November 11, 2004, p. 15; Edward Luce and Quentin Peel, “FT Interview Manmohan Singh,” *Financial Times*, November 8, 2004, p. 5.

<sup>2</sup> New Delhi, *Government of India Press Information Bureau, Internet Version*, in English, January 25, 2007, *Open source Committee, Foreign Broadcast Information Service Central Eurasia* (Henceforth *FBIS SOV*), January 25, 2007; Moscow, *Interfax*, in English, January 23, 2007, *FBIS SOV*, January 23, 2007; “Press Conference Following Talks

either come to India through pipelines across Central Asia and other countries or by tankers from Russia, the importance of Central Asia as a conduit of energy to India is magnified. Together with that, there is this aspect of India’s proximity to Russia. Thus, India is planning a \$5-billion investment in Russia in exchange for oil.<sup>3</sup>

One could also easily adapt Prime Minister Singh’s remark to India’s relations with all the Central Asian energy-providing states: Kazakhstan, Turkmenistan, and Uzbekistan, as well as Russia and Azerbaijan, for it has sought and is eagerly seeking to consummate long-lasting energy deals for oil and gas with all of them. Indeed, it has secured an agreement from Uzbekistan to explore for gas there; and with

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with Indian Prime Minister Manmohan Singh,” [www.kremlin.ru](http://www.kremlin.ru), January 25, 2007.

<sup>3</sup> “India Plans \$5 bn Investment in Russia in Exchange for Oil,” *Alexander’s Gas and Oil connection*, I, NO. 24, December 21, 2006, [www.gasandoil.com/goc/company/cnr65114.htm](http://www.gasandoil.com/goc/company/cnr65114.htm)

Kazakhstan it is taking part in a joint venture in the Caspian Sea Exploration block, Satpayev.<sup>4</sup> This quest is not just for oil but also for natural gas. Indeed, one portrayal described India as “desperately” looking for long-term gas contracts with gas-rich states in Central Asia, Africa and the Middle East to overcome gas shortages.<sup>5</sup> Neither is this quest restricted to hydrocarbons. India is negotiating

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<sup>4</sup> Apart from the Russian gambits discussed above see, Moscow, *ITAR-TASS*, in English, July 17, 2006, *FBIS SOV* July 17, 2006; Baku, *ANS Television*, in Azeri, April 11, 2007, *Foreign Broadcast Information Service, Central Eurasia*, (Henceforth *FBIS SOV*), April 11, 2007 for Azerbaijan and *Eurasia Security Digest*, April 10, 2006; Almaty, *Khabar Television*, in Russian, February 18, 2005, *FBIS SOV*, February 18, 2005; Hong Kong, *AFP* in English, June 8, 2006, *FBIS SOV*, June 8, 2006; “Kazakhstan Makes Indian Offer It Can’t Refuse,” *Alexander’s Gas and Oil Connections*, XI, NO. 21, November 9, 2006, [www.gasandoil.com/goc/company/cns64540.htm](http://www.gasandoil.com/goc/company/cns64540.htm); New Delhi, *The Times of India*, in English, May 9, 2006, *FBIS SOV*, May 9, 2006; New Delhi *PTI News Agency*, in English, April 26, 2006, *FBIS SOV*, April 26, 2006; “India to Undertake Gas Exploration in Uzbekistan,” *PTI News Agency*, April 16, 2007, retrieved from Lexis-Nexis

<sup>5</sup> “India is Worried by Gas Shortage,” *Alexander’s Gas and Oil Connections*, XI, No. 24, December 21, 2006, [www.gasandoil.com/goc/company/cns65162.htm](http://www.gasandoil.com/goc/company/cns65162.htm)

with Tajikistan for electricity, with Moscow and Washington for nuclear energy, and is involved as a key player in a major US initiative to stimulate infrastructural and electrical power connection and investments throughout Central Asia that would allow India to play more effectively in this region as a source of and market for trade, investment, and energy. One benefit for India of this initiative is that it would also substantially help India satisfy its enormous energy needs while integrating it even more effectively with Central Asia.<sup>6</sup>

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<sup>6</sup> Assistant Secretary of State Richard A. Boucher, “The U.S.-India Friendship; Where We Were and Where we’re Going,” Remarks at the Confederation of Indian Industries, New Delhi, April 7, 2006, [www.state.gov/p/sca/rls/rm/2006/4320.htm](http://www.state.gov/p/sca/rls/rm/2006/4320.htm); Assistant Secretary of State Richard A. Boucher, “Remarks at Electricity Beyond Borders: A Central Asia Power Sector Forum,” Istanbul, Turkey, June 13, 2006, <http://www.state.gov/p/sca/rls/rm/2006/67838.htm>; “Electricity Relights Washington’s Central Asian Policy,” *Jane’s Foreign Report*, June 29, 2006, [http://www4.janes.com/subscribe/frp/doc\\_view.jsp?K2DocKey=/content1/janesdata/mags/frp/history/frp2006/frp70038.htm@current&Prod\\_Name=FREP&QueryText=](http://www4.janes.com/subscribe/frp/doc_view.jsp?K2DocKey=/content1/janesdata/mags/frp/history/frp2006/frp70038.htm@current&Prod_Name=FREP&QueryText=); Joshua Kuchera, “USAID Official Outlines Plan to

At the same time, there is also no doubt that India is increasingly regarded (and not least because of the US-India nuclear agreement) as a fit partner for states wishing to sell nuclear energy or cooperate with it in that field. For example, India's enhanced capabilities are now regarded as a positive factor in Moscow which supports the Indo-American nuclear deal.

Russian Ambassador to India, Vyacheslav Trubnikov, admitted that Russia supports the Indo-American nuclear deal and that Russia does not fear the upcoming competition to provide India with nuclear energy because the Indian market is a huge one. Moreover, he and Russian analysts view India as a thriving democratic country with a strong set of

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Build Central-South Asian Electricity Links," *Eurasia Insight*, May 4, 2006, [www.eurasianet.org](http://www.eurasianet.org); Moscow, *Agentstvo Voyennykh Novostey Internet Version*, January 25, 2007, *FBIS SOV*, January 25, 2007.

controls over the export of its nuclear technology and have promoted the view that the status quo with regard to India in the non-proliferation treaty regime ought to be changed.<sup>7</sup> Australia, too, has stated that it would cooperate with India in the civilian nuclear energy field and is considering selling it uranium.<sup>8</sup> Finally, even China is considering that cooperation with India in nuclear energy may be possible as a result of India's deal with America as long as that deal does not facilitate nuclear proliferation.<sup>9</sup>

Meanwhile, India also sees itself as a major independent economic player with a leading role to play not only in South Asia but also in Central Asia. M K Narayanan, India's

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<sup>7</sup> Shaun Walker, "Fueling India's Growth," *Russia Profile*, I, No. 4, May, 2006, p. 13-14.

<sup>8</sup> P.S. Suryanarayana, "Australia Assures Cooperation Civil Nuclear Energy Sector," *The Hindu*, August 1, 2007 cited in <http://nuclearno.com/text.asp?12059>

<sup>9</sup> "China May Seek n-Cooperation With India," *Expressindia.com*, September 5, 2007

National Security Advisor, told the annual Wehrkunde conference in Munich in 2006 that,

In South Asia, for example, those of our neighbours who were farseeing enough to understand the benefits of linking their economies to the Indian economic motor have been rewarded handsomely. Whether they are addressing demands of services, energy, or goods, their rising living standards tell their own story. In fact, as the full potential of the emerging socio-economic processes begins to be appreciated, new options could well emerge <sup>10</sup>even for historically intractable problems. It is with this optimism of new opportunities and broader horizons that India now approaches its neighbours and the rest of Asia... India's location, straddling as it does all the major sub-regions of

Asia, provides it with a unique vantage point... If the basis for a stable and prosperous Asia lies in both political and economic integration – cutting across cultures, historical divisions, ideologies and barriers (both physical and ideological) – then India is eminently suited to play a leading role.<sup>11</sup>

This is very clearly not an individual view but the considered view of the government in New Delhi. In a 2005 speech in Washington, Foreign Secretary Shyam Saran stated that,

Countries across the globe are beginning to see India as an indispensable economic partner and seeking mutually rewarding economic and commercial ties with our

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11 M.K. Narayanan, "Asia's Global Foreign Policy and Security Interests," *Hampton Roads International Security Quarterly*, No. 2, 2006, p. 51.

expanding economy... Should not our neighbours also seek to share in the prospects for mutual prosperity India offers to them? Do countries in our neighbourhood envisage their own security and development in cooperation with India or in hostility to India by seeking to isolate themselves from India against the logic of our geography?<sup>12</sup>

But, beyond this vision for Americans, equally striking is what he told a Shanghai audience in January 2006 about India's vision for Asia. Saran here announced that,

We regard the concept of neighbourhood as one of widening concentric circles, around a central axis of historical and cultural commonalities. In this, we see India's destiny interlinked with

that of Asia. From this point of view, developing relations with Asian countries is one of our priorities, while pursuing a cooperative architecture of pan-Asian regionalism is a key area of focus in our foreign policy. Geography imparts a unique position to India in the geopolitics of the Asian continent, with our footprint extending well beyond South Asia and our interests straddling across different sub-categories of Asia – be it East Asia, West Asia, Central Asia, South Asia, or Southeast Asia. To those who harbour any scepticism about this fact, it would suffice to remind that we share one of the longest land borders in the world with China, that Central Asia verges on our northern frontiers, that we have land and maritime borders with three South East Asian countries, that our Andaman and Nicobar Islands are just over a hundred kilometres from Indonesia, and that our exclusive economic

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<sup>12</sup> K.P. Nayar, "The US Recognizes South Asia as India's Sphere of Influence," *The Telegraph*, Calcutta, April 5, 2006, [www.telgraphindia.com/1060405/asp/opinion/story\\_6056145.asp](http://www.telgraphindia.com/1060405/asp/opinion/story_6056145.asp)

zone spans waters from the Persian Gulf to the Straits of Malacca. It is this geopolitical reality and our conviction that enhanced regional cooperation is mutually advantageous, which sustain our enthusiasm to participate in endeavours for regional integration, ranging from [the] South Asian Association of Regional Cooperation to [the] East Asia Summit, and [the] Shanghai Cooperation Organization.<sup>13</sup>

Thus, India's dependence upon secure oil and gas supplies from the Gulf and from Central Asia, as manifested in its energy firms' quest for equity holdings in Russian, Angolan, Sudanese, Venezuelan, and, most of all, Iranian energy fields. Major deals with states like Iran

represent a vital national and strategic interest. Accordingly, in November 2004, India's state-run oil corporation announced a three-billion-dollar deal with Iran's Petropars.<sup>14</sup> Similarly, at the December 3-4, 2004, summit with Russia, India announced a three-billion-dollar Indian investment in the Sakhalin-3 oil field and the joint Russian-Kazakh Kurmangazy oil field in the Caspian. India's former Energy Minister, Mani Shankar Aiyar, has stated while in power that, "What I am talking about is the strategic alliance with Russia in energy security, which is becoming for India at least as important as our national security."<sup>15</sup> Since then, India has also entered into discussions with Russia about the prospects for India's participation in

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<sup>13</sup> "Present Dimensions of the Indian Foreign Policy, Address by Foreign Secretary Mr. Shyam Saran at the Shanghai Institute of International Studies, New Delhi, *Ministry of External Affairs Internet Version*, in English, January 12, 2006, *FBIS SOV*, January 12, 2006.

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<sup>14</sup> Peel, p. 15.

<sup>15</sup> New, Delhi, *The Hindu*, November 14, 2004, *FBIS SOV*, November 14, 2004.

the Sakhalin-III project as well.<sup>16</sup> Indeed, India's quest for energy is so driving a factor in its foreign policy that it agreed to have the national oil and gas company, ONGC, enter what is a transparent dummy bid for the remnants of Yukos in Russia, the most efficient energy producer there that was destroyed by President Putin and his government for political reasons; in order to gain favour in Moscow's eyes by legitimating this phoney auction. Presumably, this favour will lead to enhanced access to Russian energy and heightened cooperation with Russian energy firms.<sup>17</sup>

Since then, India's interest in Russian and Central Asian energy has

only grown. India seeks to expand its energy partnership with Russia; and Russia is certainly willing to do that. Thus, India seeks to participate not only in the Sakhalin-I where it is currently engaged, but also in the Sakhalin-III project and in energy blocs in the Timan-Pechora fields, again with Russian support.<sup>18</sup> New Delhi has offered to buy 50 million tons of crude oil annually from Russia, offered incentives to Russian companies to build refineries in Russia, and support Russia's bid to participate in the 7.4-billion-dollar Iran-Pakistan-India pipeline (IPI) project.<sup>19</sup> Indian Minister for Petroleum and Natural Gas, Murli Deora, even said that Russia might become India's main oil supplier.<sup>20</sup>

But, beyond the keen interest in Russian energy sources, India's two main options for Central Asian energy

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<sup>16</sup> See for example, *Northeast Asia and Pacific Security Network (NAPSNET)*, "Russo-Indian Energy Trade," December 5, 2006.

<sup>17</sup> "Focus; Geopolitics; India and Russia Deepen Energy Cooperation," *Petroleum Economist*, December 3, 2004; "President Putin Approved Participation of Indian Companies in the Auction for Sale of Yuganskneftgaz," *Vedomosti*, December 8, 2004, Retrieved from Lexis-Nexis; Valeria Korchagina, "Indian Oil Company to Bid for Yugansk," *Moscow Times*, December 6, 2004.

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<sup>18</sup> Moscow, *ITAR-TASS*, in English, January 25, 2007, *FBIS SOV*, January 25, 2007; New Delhi, *PTI News Agency*, in English, January 25, 2007, *FBIS SOV*, January 25, 2007; Chennai, *The Hindu Internet Version*, in English, April 17, 21007, *FBIS SOV*, April 17, 2007.

<sup>19</sup> Siddarth Srivastava, "India's Quest for Russian energy," *Asia Times Online*, November 6, 2006, [www.atimes.com](http://www.atimes.com)

<sup>20</sup> Moscow, *ITAR-TASS*, in English, October 30, 2006, *FBIS SOV*, October 30, 2006

are the possibilities of the IPI pipeline and a pipeline from Turkmenistan through Afghanistan and Pakistan to

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India (TAPI or TAP line). These two pipelines have been “on the drawing boards” for several years and are difficult, even controversial, options because of the many political problems connected to completion of these deals. These political problems exist apart from the inherently and exceedingly difficult issues normally connected with multinational pipelines; namely, ecological, geological, financial and commercial risks. Beyond that, there is a real question as to who will actually build these pipelines and the role of Russia in them. India, Gazprom, and the Russian government have long indicated a desire to participate in sending oil and/or gas to the subcontinent through the IPI.<sup>22</sup>

Indeed, one Russian official, Gazprom’s man in Tehran, Abubakir

Shomuzov, has even advocated extending the IPI pipeline to China to tie Russia, China, India, Pakistan, and Iran together in a very big project having major strategic implications as well as a huge number of consumers.<sup>23</sup>

Interestingly, China’s Ambassador to India in 2006, Sun Yuxi, said that China had no objection to the IPI, finding it a very good idea; while India’s minister for State Planning, M V Rajashekar, also said that once the pipeline is completed, it could be extended to China.<sup>24</sup> Presumably, such statements, if not plans, are intended to mollify China about the possibility of Russian energy being diverted from it to India.<sup>25</sup> Nevertheless, if one correlates China’s recent moves in Central Asia regarding energy with its deals with Iran, it is hard to escape the notion that China is contemplating a pipeline network running from Iran either through Central Asia, or prospectively through Pakistan and/or

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21 “Pipelines Pondered,” [www.asiant.com](http://www.asiant.com), November 26, 2003; Prem Shankar Jha, “The Pipeline to Peace,” [www.outlookindia.com](http://www.outlookindia.com), November 30, 2004.

22 Moscow, *ITAR-TASS*, in English, April 17, 2007, *FBIS SOV*, April 17, 2007.

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23 Atul Aneja, “Pipeline Should Extend to China,” Chennai, *The Hindu Internet Version*, in English, May 7, 2007, *FBIS SOV*, May 7, 2007.

24 “The Energy Game,” *Heartland: Eurasian Review of Geopolitics*, November, 2005, [www.heartland.it](http://www.heartland.it)

25 *Ibid.*

India to China.<sup>26</sup> Moreover, China's moves in Central Asia appear to have awakened at least some concern among Russian observers.<sup>27</sup> Meanwhile, Pakistan too has supported Russian participation in the IPI.<sup>28</sup>

It should also be noted that the political issues surrounding these two pipelines go beyond the obvious ones of the Indo-Pakistani rivalry and the war in Afghanistan in the case of the TAP line, or the American hostility towards Iran that has led Washington to oppose the IPI and frequently warn India against it.<sup>29</sup> American pressure on India to walk away from concluding a deal on the IPI pipeline and cease any defence cooperation with Iran is continuing and public.<sup>30</sup> Although

congressional figures and Secretary of State Condoleezza Rice have often spoken against India's support for a pipeline from Iran, Indian official figures have repeatedly said that this would not deter them from deciding to support the line given India's energy needs.<sup>31</sup> And, the government has repeatedly told Washington not to interfere in the IPI deal.<sup>32</sup> Indeed, India is not alone in turning to Iran. In order to maintain its position as an energy hub, demonstrate its vital importance in this role to Europe and bypass Russian efforts to monopolize Caspian-based energy, Turkey has recently signed a huge energy deal with Iran.<sup>33</sup> China, of course, has been

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<sup>26</sup> Stephen Blank, "China's Recent Energy Gains in Central Asia: What Do They Portend?" *Central Asia Caucasus Analyst*, September 19, 2007.

<sup>27</sup> Dosym Satpayev, "China Comes On line," Moscow, *Nezavisimaya Gazeta*, in Russian, January 22, 2007, *FBIS SOV*, June 18, 2007.

<sup>28</sup> Moscow, *Interfax*, in English, April 12, 2007, *FBIS SOV*, April 12, 2007.

<sup>29</sup> Ashish Kumar Sen, "US Not Convinced With IPI Pipeline," [www.tribuneindia.com](http://www.tribuneindia.com), April 7, 2007; Farhod Mirzabaev, "Iran Pipeline Project Can Jeopardize N-Deal With US," [www.indiapost.com](http://www.indiapost.com), May 21, 2007.

<sup>30</sup> Seema Mustafa, "India' Under Open Pressure' From US Not to Conclude Gas

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Pipeline Deal With Iran," *The Asian Age Internet Version*, August 1, 2007.

<sup>31</sup> Gal Luft, "Iran-Pakistan-India Pipeline: A View From Washington," *IGS Energy Security*, June 15, 2007, [www.iags.org](http://www.iags.org); "Indian Oil Minister Denies US Pressure on IPI Pipeline Project," [www.2irna.com](http://www.2irna.com), July 5, 2007.

<sup>32</sup> Tehran, *Fars News Agency Internet Version*, in English, May 9, 2007, *FBIS SOV*, May 9, 2007; "India Cannot Be Pressurized on Iran Pipeline Project: Deora," [www.Outlookindia.com](http://www.Outlookindia.com), March 24, 2007.

<sup>33</sup> Stephen Blank, "Iran's Energy Deals With Turkey and Azerbaijan: The Many Facets of Caspian Energy Politics," *Central Asia Caucasus Analyst*, September 5, 2007; Too Energetic a Friendship," *The Economist*, August 25, 2007, p. 49.

making deals of a comparable size with Iran for some time.

Rather the less obvious, but no less important, political or strategic issues relating to both of these potential pipelines refer to the struggles for political and economic influence, if not hegemony, in Central Asia. Such influence or hegemony will, in this context, be expressed not in classical geo-strategic terms but in geo-economic terms relating to major trade and infrastructural projects including energy pipelines. Therefore, apart from the states that are directly involved in these two projects, Russia in particular looms as a major actor trying to influence Indian as well as Iranian and Central Asian policy (and of course Pakistan) even where it has not publicly commented on the issue. And, of course, as regards the IPI pipeline, Iran's relations with India are of considerable importance. At the same time, India and Pakistan's engagement with Central Asia in general and with regard to energy and infrastructure in particular, also reflects the process by which Central Asia has become ever more enmeshed with major Asian states in those particular

areas and where both the Central Asian and East and South Asian regimes who need its energy are creating ever closer economic relations.<sup>34</sup>

### **The IPI and its Context**

Iran has apparently been promoting the idea of the IPI for at least a decade. Furthermore, this pipeline, if it gets off the ground, must be seen in the geopolitical light of India's long-standing strategic partnership with Iran.<sup>35</sup> This partnership encompasses much more than energy to include defence cooperation as well, which is why there is considerable suspicion about the relationship in Washington.<sup>36</sup> Indeed, Energy Secretary Samuel Bodman told the Indian government

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34 Stephen Blank, "East Asia Meets Central Asia: The Global Energy Crisis as a Spur to Globalization and Regional Integration in Asia," *Korea and World Affairs*, XXXI, NO. 1, Spring, 2007, pp. 39-63; Stephen Blank, "Reconstructing Inner Asia," *Journal of East Asian Studies*, XVI, No. 2, Fall-Winter, 2002, pp. 282-314.

35 C. Christine Fair, "India-Iran Security Ties: Thicker Than Oil," Henry Sokolski Ed., *Gauging U.S.-Indian Strategic Cooperation*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2007, pp. 259-326; C. Christine Fair, "India and Iran: New Delhi's Balancing Act," *The Washington Quarterly*, XXX, NO. 3, Summer, 2007, pp. 145-159.

36 *Ibid.*

quite clearly that Washington opposes the pipeline because the revenues going to Iran will help fund its nuclear programs. Yet, he also made clear that this would not affect the overall Indo-American relationship and the revised version of the July 2005 bilateral agreement between them.<sup>37</sup> This appears to justify Indian officials' long-standing confidence that they can balance their partnership with Washington and flourishing ties with Israel on the one hand and with Iran on the other. Thus, officials like Hamid Ansari, a member of the Policy Advisory Group to former Foreign Minister S. Natwar Singh, stated that, "What is going on with regard to Iran is a complex game – part chess, part poker. But we have done our sums with regard to Iran. It isn't an area

where we will be pushed to resolve our position."<sup>38</sup>

Even so, this has not deterred Washington from continuing its opposition. Congressman Tom Lantos (D-California), Chairman of the House International Relations Committee, has introduced legislation targeting companies investing in Iran's energy sector by ensuring that any deal over \$20 million will bring those investors under US sanctions. It also expresses the "sense of the Congress" that Washington encourage foreign governments to direct all state-owned entities to cease all investment in the Iranian energy sector and urges Russia and China to desist from assisting that program either directly or indirectly.<sup>39</sup> At the same time, the State Department

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<sup>37</sup> Amit Baruah, "India and Iran: Crunch Time Ahead," *The Hindu*, March 27, 2007, "US Energy Secretary Not Opposed to India-Pakistan-Iran Gas Pipeline,?" *Alexander's Gas and Oil Connection*, XII, NO. 7, April 11, 2007, [www.gasandoil.com/goc/news/nts71500.htm](http://www.gasandoil.com/goc/news/nts71500.htm)

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<sup>38</sup> V. Sudarshan, "The Next Step on Tiptoes," [www.outlookindia.com](http://www.outlookindia.com), November 15, 2004.  
<sup>39</sup> "New US Bill Could Block India-Iran Pipeline Deal," *Alexnader's Gas Oil Connection*, XII, NO. 7, April 11, 2007, [www.gasandoil.com/goc/news/nts71508.htm](http://www.gasandoil.com/goc/news/nts71508.htm)

had also warned leading oil and gas companies as well as the governments of India, China, Pakistan and Malaysia that they risked sanctions if they continued making deals with Iran.<sup>40</sup>

Meanwhile, India has long recognized its need for Iranian energy and close economic ties to Iran. The relationship with Iran is very important to India because of the need to ensure reliable energy access, the two states' common opposition to Pakistani-sponsored terrorism in Afghanistan and Central Asia, India's rising interest in the stability of the Persian Gulf, and the importance of the North-South trade corridor. This corridor, beginning in Northwest Russia, is the centrepiece of a grand Russian design to exploit Russia's geography as a bridge between North and South and East and West and make Russia the hub of a vast overland and maritime

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<sup>40</sup> Baruah, *op. cit.*

trading and transportation network that would embrace Europe to the West and Iran, Central Asia, and India in the South.<sup>41</sup> Obviously, the corridor's value for India grew when trade routes through Afghanistan and Pakistan were held hostage to Pakistan-backed terrorism before 2002. The North-South corridor bypasses Afghanistan and Pakistan and is a strong symbol of India's political closeness to Iran, Russia, and Central Asian regimes.

While this relationship with Iran substantiates India's own claims to be a rising power and reflects Iran's awareness that cooperation with India benefits it in and around Central Asia; it also exemplifies the broader trend of Indian relations with key actors in

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<sup>41</sup> Moscow, ITAR-TASS, in English, January 3, 2001, *FBIS SOV*, January 3, 2001; Ramtanu Maitra, "India and Russia Have Much to Lose," *Asia Times Online*, November 26, 2003, [www.atimes.com](http://www.atimes.com); Idem., "Why Courting Russia and Iran Makes Sense," *Asia Times Online*, October 1, 2003, [www.atimes.com](http://www.atimes.com).

Central Asia and the Middle East. In fact, for at least a decade Indo-Iranian relations have exemplified the pattern whereby economic and energy security become inextricable parts of a web of greater security and defence interests.<sup>42</sup> Thus, Indo-Iranian relations are clearly more than a commercial deal and have important strategic ramifications and repercussions for both sides. Former Foreign Secretary, Ambassador Salman Haidar has recently said that the “IPI pipeline is more than a confidence-building measure.” Rather, it is a something that can change the structure of relations in South Asia, while Iran will remain an expanding supplier of energy to India and will be

a major part of India’s “extended” strategic neighbourhood.<sup>43</sup>

Whereas Pakistan’s strident Islamism and support for terrorism and drug-running had earlier strongly alienated Central Asian governments and even estranged Iran and its ally China; India’s opposition to those policies and superior economic attainments has enhanced its political status and fosters an alignment with Iran against Pakistani-inspired terrorism.<sup>44</sup> The powerful linkages that India has created thereby enable it to project power and influence further afield, e.g., the North-South trade corridor with Russia and Iran which could only take shape on the basis of common political goals. The

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<sup>42</sup> Jasjit Singh, “Enhancing Peace and Cooperation in West Asia: An Indian Perspective,” *The Emirates Occasional Papers* No. 27, The Emirates Center for Strategic Studies and Research Abu Dhabi, 1998, p. 7.

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<sup>43</sup> “IPI Gas Pipeline More than a CBM: Indian Ex-Foreign Secretary,” February 12, 2007, [www2.irna.com](http://www2.irna.com), accessed on August 28, 2007.

<sup>44</sup> John Calabrese, “Indo-Iranian Relations in Transition,” *Journal of South Asian and Middle Eastern Studies*, XXV, No. 5, Summer, 2002, pp. 60-82; Smita Gupta, “Threats of Terrorism Bring India, Iran Closer,” *The Times of India*, April 15, 2001

relationship with Iran is not exclusively based either on this fact or on the fact that India's main supplier of oil will continue to be the Gulf States, Iran among them.<sup>45</sup> But, undoubtedly, energy is a key factor along with Central Asia, Afghanistan, Indo-Pakistani relations, and general trade, especially as Iran seeks to become a centre of international energy trade and sees Central Asia as the biggest market for its goods and capital investment.<sup>46</sup>

Bearing this context in mind, we can examine the development of the IPI. This pipeline is a project spanning 1700 miles or 2600 KM, 700 miles of which would traverse Pakistan. India signed a Memorandum

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45 Calabrese, "Indo-Iranian Relations in Transition," pp. 60-82; Satyanarayan Pattanayak, "Oil as a Factor in Indo-Gulf Relations," Strategic Analysis, June, 2001, [www.ciaonet.org/olj/sa/sa\\_june01pas02.html](http://www.ciaonet.org/olj/sa/sa_june01pas02.html)

46 "Iran Tries to Become Centre of Distribution of Energy to International Market," *www.TehranTimes.com*, June 9, 2002, Retrieved from Lexis-Nexis; Tehran, *IRNA*, in English, January 16, 2003, *FBIS SOV*, January 16, 2003.

of Understanding (MoU) with Iran about its construction as far back as 1993. But due to the Indo-Pakistani hostility and Delhi's reservations about entrusting control of its energy to Pakistan, the deal was delayed through 2006, raising its cost to \$7 billion. As of 2006, and despite American opposition, the World Bank and Japan's Sumitomo Mitsui Banking Corporation have also shown an interest in bankrolling the pact. Of course, Russia supports it in order to tie both states into its vision of a vast trade, energy, and infrastructural North-South corridor. Beyond that, there have also been reports that Australia's BHP, Petronas, Total, the Iranian National Gas Company, and Gazprom have expressed interest in building this pipeline.<sup>47</sup> Meanwhile, Gazprom is also ready to help finance

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47 Rizwan Zeb, "Does the Iran-Pakistan-India Pipeline Have a Future?" *Central Asia Caucasus Analyst*, November 16, 2005; *Reuters*, May 6, 2007.

or even manage it as well since President Putin has approved this deal and the Pakistani government has also approved the possibility of Gazprom financing and/or constructing the pipeline.<sup>48</sup>

However, this project and all other Iranian projects to supply India with energy have been beset by multiple problems which have frequently been compounded due to the effects of the US-led pressure on Iran's trade and foreign investment in Iran. Only in 2005 did Pakistan and India agree to pursue this project as a straightforward purchase of Iranian gas at the Indian border with a supplementary agreement between Iran and Pakistan covering the supply of

gas to Pakistan and its transit to India.<sup>49</sup> There also is reason to believe that India joined because it feared that Pakistan and Iran might do a deal leaving it out of that energy sweepstakes.<sup>50</sup> The tripartite Framework Agreement was supposed to be finalized in December 2005, and both sides agreed to seek third-party certification of Iran's gas reserves before moving ahead on the pipeline.<sup>51</sup> At the same time and parallel to those discussions, India's Essar Group is in talks with Iran to develop the giant Azadegan oil field from which Japan withdrew under US pressure. The idea is to ensure fuel for a planned refinery and steel plant in Iran. But

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<sup>48</sup> Moscow, *Interfax*, in English, June 16, 2006, *FBIS SOV*, June 16, 2006; Moscow, *ITAR-TASS*, in English, June 15, 2006, *FBIS SOV*, June 15, 2006; Siddarth Srivastava, "India Weighs the Pipeline Odds," *Asia Times Online*, April 19, 2007, [www.atimes.com](http://www.atimes.com); "Gazprom Interested in Managing the IPI Pipeline," *Alexnader's Gas & Oil Connection*, XII, NO. 11, June 14, 2007, [www.gasandoil.com/goc/news/nts72433.htm](http://www.gasandoil.com/goc/news/nts72433.htm)

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<sup>49</sup> Talmiz Ahmad (Additional Secretary, Ministry of Petroleum and Natural Gas," "Advantages of Transnational Gas Pipelines," Chennai, *The Hindu Internet Version*, in English, April 24, 2006, *FBIS SOV*, April 24, 2006.

<sup>50</sup> Ingolf Kiesow and Niklas Norling, *The Rise of India: Problems and Opportunities*, Uppsala and Washington, D.C.: Central Asia Caucasus Institute and Silkroad Studies Program,, 2007. pp. 102-104.

<sup>51</sup> Rizwan Zeb, *op. cit.*

consummation of this deal would obviously have ramifications for Iranian oil supply to India. Essar is also discussing building a refinery for a capacity of 300,000 barrels of oil a day near Iran's southern port of Bandar Abbas.<sup>52</sup>

However, the IPI project has encountered numerous obstacles, not all of them due to American obstacles in its path. This is not to minimize those obstacles for they are significant. Nonetheless, there are inherent problems in the Indo-Iranian energy relationship. Indeed, at present, Iranian energy sales to India are relatively underdeveloped despite the long-standing partnership between the two states. As of early 2007, Indian imports of crude oil from Iran range between 100,000-150,000 bpd: about 7.5% of India's total oil imports of

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<sup>52</sup> "India's Essar, Iran in Talks to Develop Azadegan," *Reuters*, March 16, 2007.

about 2 million bpd.<sup>53</sup> So, obviously, more than American obstacles have held up this deal.

As of late 2006, India and Iran also have ostensibly "finalized" a \$22 billion deal whereby Iran will supply five million tons of LNG to India each year. The deal was signed by India's Gas Authority of India Limited (GAIL) and Iran's National Iranian Gas Export Company, a subsidiary of the National Iranian Oil Company (NIOC). According to this agreement, LNG will be supplied over a 25 year period commencing in 2009 at a price of U.S. \$3.21 per Million British Thermal Units MBTU).<sup>54</sup>

However, despite this announcement, three major problems

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<sup>53</sup> C. Christine Fair, "Indo-Iranian Ties: Thicker Than Oil," *Middle East Review of International Affairs (MERIA)*, I, NO. 1, Article 5/7, March, 2007.

<sup>54</sup> *Ibid*; Fair, "Indo-Iranian Security Ties: Thicker than Oil," p.276.

have held up progress on actually executing the agreement for the IPI and starting to build it and only one of them is directly connected to US pressure. Iran has no capability for producing LNG and is unlikely to get any soon, thanks to American pressure. Among those holding patents for building such terminals are Exxon, Chevron, Shell and Total and none of them will risk antagonizing Washington. Since nobody has yet built an LNG terminal without American components and most LNG plants use processes developed by US companies, it is unlikely that Iran will soon be able to provide LNG to anyone. This is in spite of the fact that GAIL has committed to help build an LNG terminal in Iran.<sup>55</sup> Pakistan and India have also sought to evade American pressures and the impact of the Iran-Libya Sanctions Act that

targets countries investing in or doing business with Iran, by declaring that they would each create separate consortiums to finance their respective stretches of the pipeline and thus remain under the level of investment that would trigger the application of sanctions.<sup>56</sup>

But the other problems here relate to Indo-Pakistani rivalries, disputes over pricing and the validity of the original contract not just American pressure. Still, it is quite possible that India used these pricing disputes to evade American diplomatic pressure against it. In August 2006, tripartite discussions on the IPI deadlocked as Iran refused to reconsider its price offer for gas which was 60% higher than that quoted by India. India was not willing to pay more than \$4.25/millionBTU, whereas Iran held out for a price of \$7.2

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<sup>55</sup> *Ibid*

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<sup>56</sup> Kiesow and Norling, p. 104.

/million BTU. Tehran also annulled the offer to revamp the Tehran and Tabriz refineries and retracted its offer for 5 million tons of LNG that India planned to import. Indeed, the oil field that had to be given to India as a cost offset for those LNG imports had also been changed five times. The 2004 pact between Petropars and India Oil Corporation to develop gas fields and build a liquefaction facility is also on hold as Iran was now offering the North Pars field instead of the gas-rich South Pars field.<sup>57</sup>

Forward movement resumed in November 2006 after India voted against Iran at the IAEA. Apparently, India initiated the reconsideration of this deal after Iran had said that the vote at the IAEA would terminate the pipeline.<sup>58</sup> However, by the end of the

year, an American study by Professor Roger Stern at Johns Hopkins University cited Iran's shortfall in oil production, lack of investment, sharp growth in Iranian domestic demand (due to domestic subsidies), shortages of gas for reinjection, and a deterioration in the overall Iranian investment climate. Stern therefore warned India against investing in what could soon become Iranian export extinction.<sup>59</sup> Even so, it appears that in January 2007, tough negotiations over pricing resumed. India and Pakistan suggested capping the price at the Iran-Pakistan border at \$4/million BTU (less than before, while Iran wanted a minimum of \$6/million BTU and apparently was still holding out for its original price which is calculated on the basis of a price for gas (measured

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<sup>57</sup> SAPRA India Bulletin, Southern Asia Briefs, September, 2006, p. 21.

<sup>58</sup> "India and Iran to Revise Liquefied Natural Gas Deal," *Alexander's Gas & Oil*

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*Connection*, XI, NO. 23, December 8, 2006, [www.gasandoil.com/gopc/news/nts64958.htm](http://www.gasandoil.com/gopc/news/nts64958.htm)

<sup>59</sup> "Doubt About Iranian Gas Availability," *Alexander's Gas & Oil Connection*, XII, NO. 1, January 16, 2007, [www.gasandoil.com/goc/news/nts70396.htm](http://www.gasandoil.com/goc/news/nts70396.htm)

in BTUs) based on 10% of oil price. This would come to \$1.5/millionBTU.<sup>60</sup> India would also have to pay transportation costs and a transit fee to Pakistan adding at least \$1/millionBTU to the delivered cost and refused to pay more than \$4.75/millionBTU at its border for any gas from this “peace pipeline”.<sup>61</sup>

At this time and in tandem with signs of a joint Russo-Iranian plan for a gas cartel and Russian support for the IPI in expectation of huge economic returns from all aspects of the energy business on the subcontinent, India tried to improve ties to Iran.<sup>62</sup> But this did not bring the three parties any closer. Indeed, in March 2007, India

threatened to walk out of the deal if Pakistan did not lower its price for the transportation tariff from \$1.57/millionBTU to \$0.50/MillionBTU and a reduction of the transit fee of 10% of the gas price to 5% which is what India wants. This flare-up occurred despite announcement of a rough consensus on a price with Iran of about \$4.93/millionBTU.<sup>63</sup>

Finally, this dispute appeared to have been resolved. Iran announced the start of construction of the pipeline, Pakistan announced that it would begin in the summer of 2007, and both sides reaffirmed their commitment to the pipeline.<sup>64</sup> Washington now re-entered

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<sup>60</sup> Rahul Tongia, “Economics of the IPI Pipeline,” *Alexander’s Gas & Oil Connection*, XII, No. 4, February 27, 2007, [www.gasandoil.com/goc/news/nts70996.htm](http://www.gasandoil.com/goc/news/nts70996.htm)

<sup>61</sup> Ammar Zaidi, “India, Pakistan, and Iran Still Hagglng Over Gas price,” *International Oil Daily*, January 26, 2007, Retrieved from Lexis-Nexis.

<sup>62</sup> M.K. Bhadrakumar, “India on the Front Line in Energy War,” *Asia Times Online*, February 13, 2007, [www.atimnes.com](http://www.atimnes.com)

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<sup>63</sup> “The Iran-Pakistan-India Pipeline,” *Alexander’s Gas & Oil Connection*, XII, NO. 7, April 11, 2007,

[www.gasandoil.com/goc/news/nts71594.htm](http://www.gasandoil.com/goc/news/nts71594.htm); Ramesh Ramnachandran, “India: Iran Pipeline Viable, Russia Welcome,” *The Asian Age Internet Version*, in English, April 17, 2007, *FBIS SOV*, April 17, 2007.

<sup>64</sup> SAPRA India Bulletin, April 2007, p. 21; “India, Pakistan Renew Commitment to Iran Pipeline,” *Reuters*, April 4, 2007.

the debate, reasserting its opposition to the pipeline and offering to help Pakistan import Central Asian energy, particularly from Tajikistan, and saying that the World Bank would provide financial assistance while the Asian Development Bank (ADB) would provide financial support and technical support to Pakistan so it could import 1000MW of Tajik electricity and if necessary electricity from Kyrgyzstan as well.<sup>65</sup>

Pakistan now also announced that it was going ahead with the pipeline with Iran, each building separately to avoid US sanctions; while India was telling Washington that the project was at an early stage and encountering many problems, and telling Iran that it definitely wanted

this pipeline.<sup>66</sup> Even though India was clearly trying to balance its foreign policy commitments and anxious to secure gas and oil from abroad despite discoveries at home in the Krishna Godavari basin, by the beginning of the summer of 2007, Iran was claiming that it had finished 50% of the pipeline in its territory, and Deora publicly expected an IPI pipeline pact by mid-July.<sup>67</sup> At this point, the new pipeline was expected to be supplying around 5 million tons of LNG from Iran starting in 2009. Meanwhile, pricing disputes had not yet been resolved despite the public confidence. One June 28, 2007, a report stated that,

Islamabad is asking for a transit fee for the stretch of the pipeline running from Iran to

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<sup>65</sup> "US Repeats Opposition to Iran-Pakistan-India Gas Pipeline," *Alexandee's Oil & Gas Connection*, XII, NO. 8, April 24, 2007, [www.gasandoil.com/goc/news/nts71724.htm](http://www.gasandoil.com/goc/news/nts71724.htm)

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<sup>66</sup> Srivatsava, "India Weighs the Pipeline Odds,"

<sup>67</sup> "Deora Expects IPI Pipeline Pact by Mid-July," *Tribune News Service*, June 20, 2007; "Iran Completes 50pc Work on IPI Pipeline," *Dawn.com*, June 12, 2007

India. But India wants only to pay for the extension of the line to its border, said media reports emanating from New Delhi, where the talks are being held. Iranian officials will join the talks Thursday to discuss pricing and other issues. Teheran apparently wants prices revised every three years, instead of the earlier agreed seven. The three nations hope to sign a deal on the pipeline next month.<sup>68</sup>

Indeed, the very next day, June 29, an agreement in principle was seemingly reached. But in fact while agreement was reached on a price for the gas at \$4.93/millionBTU at the Iranian border, India and Pakistan wanted this to remain the price

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<sup>68</sup> Ruth David, "India, Pakistan Hold Talks on Iran Gas Pipeline," *Forbes.com*, June 28, 2007.

throughout the 25 year duration of the supply while Tehran wanted to be able to revise those prices based on the international fuel prices and energy mix, every three years.<sup>69</sup> And, while the transportation charges issue accruing to Pakistan was resolved with it getting \$0.70-.075/millionBTU, the question of transit fee payable to it was still unresolved.<sup>70</sup>

Thus, despite the announcement of agreements, in fact analysts believed that the remaining differences could still torpedo the whole agreement.<sup>71</sup>

Pakistan demanded a transit fee of \$.0493/millionBTU and India wanted \$0.20/millionBTU. These charges

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<sup>69</sup> "IPI Pipeline: Iran Invites Manmohan, Musharraf to Sign Papers," *Tribune News Service*, June 30, 2007, [www.tribuneindia.com](http://www.tribuneindia.com); "Iran Seeks Changes in Gas pipeline Agreement," *Press Trust of India*, June 30, 2007; "Breakthrough in IPI Pipeline Contract," *Alexander's Gas & Oil Connection*, XII, NO. 14, July 27, 2007, [www.gasandoil.com/goc/news/nts73012.htm](http://www.gasandoil.com/goc/news/nts73012.htm)

<sup>70</sup> *Ibid.*

<sup>71</sup> "Many Obstacles Still to Be Crossed With IPI Gas Pipeline," *Alexander's Gas & Oil Connection*, XII, No. 14, July 27, 2007, [www.gasandoil.com/goc/news/nts73001.htm](http://www.gasandoil.com/goc/news/nts73001.htm)

would mean that India would be paying in effect \$7/millionBTU.<sup>72</sup>

Thus, in the wake of this deal there were charges by Indian officials that Iran was renegeing on earlier agreements, while Iranian officials were criticizing India for not realizing that in fact, given all the energy that Iran is exporting to India, including a separate \$22 billion LNG deal, New Delhi is getting energy at discounted prices, clearly for political reasons.<sup>73</sup> India is also concerned about the safety of the Pakistan section of the pipeline and wants to tie its partners down to a strong commitment to ensure that service is not interrupted due to attacks by, for example, Baloch insurgents in Pakistan.<sup>74</sup>

However, this agreement has now run afoul of Iranian politics. Iran's Energy Minister, Kazem Vaziri-Hamaneh, was fired, reportedly for giving India and Pakistan too low of a price on the IPI pipeline, and India has dramatically reduced the estimated gas reserves of recent finds announced at home and also admitted that it is unlikely to obtain any gas from Myanmar as it had hoped and tried to accomplish.<sup>75</sup> Iran also announced the termination of the aforementioned \$22 billion LNG deal with India and is blocking progress on India's hopes for acquisitions from the South Pars LNG project.<sup>76</sup> Thus, it is clear that Iran, which now has big dreams of being a major gas exporter and major LNG exporter by 2025 and seeks to break the American sanctions by big deals

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<sup>72</sup> "Breakthrough in IPI Pipeline Contract"

<sup>73</sup> Kaveh L. Afrasibi, "A Blockage in the Peace Pipeline," *Asia Times Online*, July 10, 2007, [www.atimes.com](http://www.atimes.com)

<sup>74</sup> Aminesh Roul, "The IP Pipeline: More Than a Dream," *International Security Watch*, [www.isn.ethz.ch](http://www.isn.ethz.ch), August 6, 2007.

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<sup>75</sup> Siddarth Srviastava, "Exit Iran's Oil Minister, and a Pipeline Too," *Asia Times Online*, August 16, 2007, [www.atimes.com](http://www.atimes.com)

<sup>76</sup> *Ibid.*

with Turkey, China, and hopefully the EU, is playing energy hardball with India which is in a very difficult energy position.<sup>77</sup>

But it remains to be seen if this hardball can succeed, given the fact that Iran's LNG capability is a very dubious proposition.<sup>78</sup> Moreover, it must also be determined what the state of the TAP or TAPI line is or will be, before we can judge whether or not India has any viable alternative to the IPI line. But what is clear is that American sanctions, Indian dithering, Iranian prevarications, Indo-Pakistani suspicions and Iran's own defects as energy provider are all coming together to impede India's ability to acquire Iranian LNG and may make it impossible for Pakistan to do so as

well. In fact, and paradoxically due to American pressure upon Iran, China rather than India has become the main Asian beneficiary of Iran's energy resources. So, any possible benefit from the IPI line, e.g., enhanced mutual confidence between India and Pakistan, has been negated.<sup>79</sup> China has also duly outmanoeuvred India in the competition for Iranian energy.<sup>80</sup> Clearly, in these decisions, politics has replaced economics as driving factors of decision-making, and not always for the best.

### **The TAPI Line and Its Context**

What is known about the TAPI line and the broader effort to connect Central Asia directly with South Asia in many ways reverses the equation seen in regard to the IPI. But, while

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<sup>77</sup> *Ibid*; Afrasibi, Stephen Blank, "Iran's Energy Deals With Turkey and Azerbaijan: the Many Facets of Caspian Energy Politics," *Central Asia Caucasus Analyst*, September 5, 2007.

<sup>78</sup> Fair, "Indo-Iranian Security Ties: Thicker than Oil," pp.276-277.

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<sup>79</sup> Lawrence Saez, "U.S. Policy and Energy Security in South Asia: Economic Prospects and Strategic Implications," *Asian Survey*, XLVII, No 4, July-August, 2007, pp. 674-678.

<sup>80</sup> Siddarth Srivastava, "India Gas Surplus on Horizon," *Asia Times Online*, December 12, 2006, [www.atimes.com](http://www.atimes.com)

Russia opposes the TAPI line and America supports it strongly, the common denominator between both projects is that South Asian energy projects are inextricably implicated in a deepening and many-sided great power rivalry for influence in Central Asia. For Russia, control over Turkmenistan's gas supplies is essential because it is only by manipulating or arbitraging the price of Turkmen gas to Russia and keeping it well below global market prices, has Moscow been able to sustain its antiquated and subsidized energy economy at home and make the substantial profits it is reaping abroad, mainly in Europe. In order to maintain the entire system of political economy upon which Putin's regime now is established, Moscow must retain its neo-colonial domination over pipelines and prices of Central Asian energy,

especially gas. Russia's virtual silence about the TAPI line indicates its unhappiness with the deal even though it is very close to India (perhaps this is why it is so silent about the deal) because it has striven to tie up Turkmenistan's energy and have it go only in one direction, namely, through Russian pipelines either to Russian and Ukrainian consumers or to Europe. Therefore, Turkmenistan's deals with China and potential deals with India are a source of consternation to Moscow which fears that it will not get its gas because it believes that Turkmenistan's claims about being able to supply all customers are inflated and false. And, if those claims are false, then contracts with China and India can only mean that they will get gas which Moscow believes belongs to it.

As this author observed in 2006, many accounts, not only from Russia, highlight the fact that the sultanistic rule of Sapimurad Niyazov had created the most unfavourable investment climate in Central Asia, the currency is essentially worthless, statistical analysis of published figures is useless or misleading at best, and Niyazov and his family, and cronies, had completely personalized all economic ventures in the country, especially in the crucial energy sector.<sup>81</sup> Since one person controlled the economy, non-decisions and a lack of real coordination and

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<sup>80</sup>Martha Brill Olcott, *Central Asia's Second Chance*, Washington, D.C.: Carnegie Endowment for International Peace, 2005, pp. 98-104, Her findings correlate with those of Theresa Sabonis-Helf, "The Rise of the Post-Soviet Petro-States: Energy Exports and Domestic Governance in Turkmenistan and Kazakhstan," Dan Burghart and Theresa Sabonis-Helf, Eds., *In the Tracks of Tammerlane: Central Asia's Path to the 21st Century*, Washington, D.C.: National Defense University Press, Center for Technology and National Security Policy, 2004, pp. 158-172.

implementation were rife.<sup>82</sup> Exchange and interest rates had no function in the economy, and governance was a matter of caprice.<sup>83</sup> Accordingly, many have argued that it is impossible to put any faith in Turkmenistan's ability to finish the pipeline on schedule, at cost, and to supply China with 30bcm of natural gas as promised. Moreover, it is impossible to put any credence in its ability to provide 30bcm a year to China and meet its contracts to Ukraine, Russia and Iran. For example, Turkmenistan's contracts with Gazprom called for it to send at least 30bcm in 2006 and 2007 to Russia and between 70-80 billions of cubic meter by 2010.<sup>84</sup> Given Turkmenistan's governance, these figures appear to be literally fantastic. Despite the succession by Gurbanguly

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<sup>82</sup> Richard Pomfret, *The Central Asian Economies Since Independence*, Princeton, NJ: Princeton University Press, 2006, p. 101 and his findings concur with those of Olcott and Sabonis-Helf.

<sup>83</sup> *Ibid.*; Olcott, pp. 88-93, Sabonis-Helf, pp. 158-172.

<sup>84</sup> A. Medvedev, "Gazexport: Achievements and Prospects," *International Affairs* (Moscow), No. 5, 2006, p. 148.

Berdymukhammedov, many foreign observers, including Russian ones, still remain highly sceptical about Turkmenistan's ability to supply China as promised, let alone India and Pakistan for the same reasons as they were sceptical during Niyazov's reign<sup>85</sup>

However, this scepticism has not deterred Russia from pursuing its quest to monopolize Turkmenistan's gas. As of 2006, Russia appeared to be well on the way to accomplishing this goal. Thanks to gas deals with Turkmenistan, Uzbekistan, and Kazakhstan in 2005-06, Russia won a virtual monopoly right over the shipment of production of that gas.

All natural gas produced in the former Soviet Union comes from Gazprom, Kazakhstan, Uzbekistan, or Turkmenistan with any natural gas

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<sup>85</sup> For example, Kathleen J. Hancock, "Escaping Russia, Looking to China: Turkmenistan Pins Hopes on china's thirst for Natural Gas," *China and Eurasia Forum Quarterly*, IV, NO. 3, 2006, pp. 79-81; David Preyger, "Problems of Turkmen Gas Export: View From Ukraine," *Central Asia and the Caucasus*, No. 1 (43), 2007, pp. 127-129.

originating in a country ending in "stan" having to transit through Kazakhstan and Russia on its way to any market. The KazMunaiGaz deal means that Gazprom – and by extension the Kremlin – now owns *all* of that gas. Any state wishing to use Central Asian gas in order to get energy independence from Russia is now out of luck. This is particularly worrisome for states such as Ukraine and the Baltic states who now have no reasonable alternative to Russian-owned natural gas. Russia has been bandying the threat of sharply higher energy prices around for years. Now it has finally taken the concrete step necessary to make that an arbitrary reality.<sup>86</sup>

However, even if Central Asian governments start today to behave in

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<sup>86</sup> "The Far-Reaching Changes in Russia," [www.stratfor.biz/products/premium/read/article.php?id=258490](http://www.stratfor.biz/products/premium/read/article.php?id=258490), November 15, 2005 (italics in the original); "Gazprom Established Control Over All Gas Resources of Three Asian Republics," *The Russian Oil and Gas Report*, November 14, 2005, Retrieved from Lexis-Nexis; "Russian, Kazakh Companies Sign Gas Transit Agreements," *ITAR-TASS*, November 11, 2005, Retrieved from Lexis-Nexis; "Oil and Gas Ambitions Look Over-Optimistic," *NBCentral Asia, Institute for War & Peace Reporting* [www.iwpr.net](http://www.iwpr.net), November 9, 2006.

an optimally efficient way to provide Asian consumers with energy, Russia will do everything it can to block Central Asian gas and oil sales to other consumers. Russia and China are strong rivals for Central Asian energy assets. For example, Rosneft, Transneft, and Lukoil already want to sell oil to China through the Kazakh pipeline to prevent Kazakhstan from monopolizing such sales and this is only one example of a general pattern of Russia's highly visible monopolistic practices in Central Asia.<sup>87</sup> At the same time, Russian energy producers have steadily rebuffed China's projects for obtaining energy supplies in Central Asia. Russia is also determined to maintain autarchic control over energy firms; its strategic resource; and to be able to manipulate prices in its favour by being a monopolistic producer. Sergei Kuprianov, Gazprom's Press Secretary, stated in 2004 that,

Sharing mineral resources with foreign companies is against

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<sup>87</sup> Sergei Blagov, "Russian Oil to Flow to China Even Before Pipeline Completed," *Eurasia Daily Monitor*, May 11, 2006.

our policy... In fact, sharing oil with the Chinese would be even more inappropriate. After all, their stake in Yuganskneftgaz (the former main asset of the now defunct Yukos energy company-author) could complicate future price negotiations (for oil purchased by CNPC).<sup>88</sup>

Similarly, Russian and American energy companies have obstructed and are still obstructing China's efforts to buy energy holdings in Central Asia, forcing China to depend on external suppliers or on its own bilateral deals rather than gain equity holdings there.<sup>89</sup> Moscow has regularly sought to monopolize the

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<sup>88</sup> Aleksandr' Tuttushkin, Irna Reznik, Rodion Levinsky," Without a Struggle Gazprom Talked China Out of Bidding on Yuganskneftgaz," *Vedomosti*, December 10, 2004, *FBIS SOV*, December 10, 2004.

<sup>89</sup> Shiping Tang, "Economic Integration in Central Asia: the Russian and Chinese Relationship," *Asian Survey*, XL, No. 2, 2000, pp. 360-376 and the sources cited there; "Statement of Dean P. Girdis," China's Energy Needs and Strategies" Hearing Before the U.S.-China Economic and Security Review Commission, October 30, 2003, [www.uscc.gov](http://www.uscc.gov), pp. 45, 51.

transport of Kazakhstan's enormous oil and gas deposits, still opposes Kazakhstan's participation in the Baku-Ceyhan pipeline system (BTC), still deprives Turkmenistan of the free choice of markets and pipelines for its gas, and obstructs efforts to build pipelines that would connect Turkmenistan with Pakistan and the Indian Ocean.<sup>90</sup> Not surprisingly, these efforts anger Kazakhstan's officials. For example, its minister of energy and natural resources said, "Russia must share the markets it controls."<sup>91</sup> Moscow's big deal with Turkmenistan in May 2007 that supposedly ties up its gas supplies to Russia through the next decade and funnels them essentially to Europe represents another example of this approach.<sup>92</sup> Thus, Moscow certainly

aims to preclude the TAPI line from coming into being by taking down Turkmen reserves and striving to appropriate them exclusively for its needs.

Indeed, those actions reflect equally compelling geo-economic and geo-strategic perspectives for Moscow. In 1998, the Kazakh political scientist, Nurbulat Masanov, wrote that,

US and Western trans-national corporations are active in the exploration of Central Asian resources and are particularly interested in reducing Russia's influence in the region. When new transport routes, such as the Trans-Caucasus corridor, become operational, Russia is expected to experience serious negative consequences. The point is that the flow of export goods from Central Asia across Russia unites the Urals, the Volga region, Western Siberia, and the Far East into a single

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<sup>90</sup> Stephen Blank, "Pipelines: Conduits for Terrorism," *Asia Times Online*, March 5, 2003, and "Assassins in Gray Suits," *Marco Polo Magazine, Acque et Terre*, No. 2, 2003, pp. 3-7.

<sup>91</sup> Galina Bazina, "Far East Instead of East Siberia," Moscow, *Gazeta.ru*, January 11, 2005, *FBIS SOV*, January 12, 2005.

<sup>92</sup> Stephen Blank, "Russia Takes a Step Toward the Formation of a Natural Gas Cartel," *Eurasia Insight*, May 17, 2007; Zorawar Daulet Singh, "The Great Game

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Moves South," *Asia Times Online*, May 17, 2007, [www.atimes.com](http://www.atimes.com); "Central Asia Politics: Moscow's Pipeline coup," *Alexander's Gas & Oil Connections*, XII, NO. 11, June 14, 2007, [www.gasandoil.com/goc/news/ntr72440.htm](http://www.gasandoil.com/goc/news/ntr72440.htm)

complex. If this flow takes alternative routes *it is quite possible that the territorial integrity of Russia will be endangered. And With China playing a larger role in the eastern part of Russia, this process is fraught with even greater unpleasantness.*<sup>93</sup> (Italics author.)

Russian officials have repeatedly reiterated their opposition to being merely China's source for raw materials and demand equal status in economic-technological exchanges with China.<sup>94</sup> Russian leaders also know that if they fail to be competitive economic players in East Asia, they will also be at a serious disadvantage at home and in Central Asia. For, if Russia fails to become "a worthy economic partner" for Asia and the Pacific Rim, Deputy Prime Minister

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<sup>93</sup> Genrikh A. Trofimenko, "The Central Asian Region: US Policy and Problems with Oil and Gas Exports," Moscow, *Ssha*, in Russian, No. 11, November, 1998, *FBIS SOV*, October 6, 1998.

<sup>94</sup> Sergei Blagov, "Russia Wants to Be More than China's Source for Raw materials," *Eurasia Daily Monitor*, September 30, 2005.

Aleksei Kudrin warned that, "China and the Southeast Asian countries will steamroll Siberia and the Far East."<sup>95</sup> China would then also steamroll Russia in Central Asia. Certainly, Russian energy policy betrays a definite reserve, if not something stronger, about ceding too much influence in Russia or Central Asia to China.<sup>96</sup>

Russia and Central Asia are thus rivals in the energy market and much of Moscow's neo-imperial designs upon this region stem from the fact that it must capture Central Asian

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<sup>95</sup> Moscow, *Interfax*, Presidential Bulletin, in English, August 21, 2001, *FBIS SOV*, August 21, 2001, "Asia and the Russian far East: The Dream of Economic Integration," *AsiaInt Special Reports*, November, 2002, pp. 3-6, [www.Asiaint.com](http://www.Asiaint.com)

<sup>96</sup> Michael Lelyveld, "Russia: Moscow's Oil Pipeline Plan to China Stalls," *Radio Free Europe Radio Liberty* (Henceforth RFERL), *Newsline*, December 10, 2002, on Slavneft see, Le-Min Lim, "China Sees Russian Barrier to Slavneft," *International Herald Tribune*, December 17, 2002, "Anti-China Sentiment Plays Into Duma vote," [www.stratfor.com](http://www.stratfor.com), December 16, 2002, "Chinese Drop Plans to Bid for Slavneft," *Rosbusiness consulting*, December 17, 2002, [www.top.rbc.ru](http://www.top.rbc.ru), Peter Wonacott and Jeanne Whalen, "China and Russia Prepare to Sign Pipeline Agreement," *Wall Street Journal*, December 2, 2002, "Japan, Russia Discussing Pipeline Construction," *Moscow Times*, December 28, 2002.

energy rents to sustain its own autocratic and anti-market system. This is because Central Asia's oil and probably gas too are cheaper to extract than is Russia's. As Mikhail Khodorkovsky, Yukos' Chairman and CEO, told the Carnegie Endowment in 2002, a key reason why Russian oil has a high cost is transportation costs and its most pressing needs are for liberalization and new markets.<sup>97</sup> But the state will not let go of its control of pipelines and this will maintain the excessively high costs of Russian oil and deprive Russia of markets even as Russia has to "push aside" other producers by expanding its pipeline network to take their oil through its pipelines.

Khodorkovsky conceded as well that Caspian oil is indeed competition for Russian oil so if that energy goes onto markets before Russian energy capabilities are developed, the latter will not have

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<sup>97</sup> Mikhail Khodorkovsky, "Stabilizing World Oil Markets: Russia's Role in Global Recovery," Carnegie Endowment for International Peace, February 28, 2002, [www.ceip.org/files/events](http://www.ceip.org/files/events)

room to compete.<sup>98</sup> Given the importance of oil companies to Russia's economics, it is urgent for them to restrict Central Asian production and infrastructure to mainly or even exclusively Russian channels lest their oil and gas become less competitive due to its own high cost and wasteful monopolistic structure and dilapidated infrastructure.<sup>99</sup>

Central Asia's abundant gas deposits, if marketed abroad, could erode Russia's competitiveness in world markets, especially the Asian markets of India, Japan, China, and South Korea that are widely expected to surge with vastly increased rates of demand for fossil fuels. Given the centrality of oil and gas to Russia's economy, that would be a catastrophe. Thus, Moscow must realize the grand Eurasian design sketched out by Putin since 2000 and his proposals for an OPEC-like cartel over natural gas so that Central Asia's efforts to build infrastructure be limited to those compatible only with Russia. Apart from the grand design for Asiatic

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<sup>98</sup> *Ibid.*

<sup>99</sup> *Ibid.*

railways and pipelines to major East Asian states, this means the successful completion of not only those two goals but also of major transportation and energy projects in Central Asia, including the north-south corridor including Central Asia, Iran, and India. Russia could then truly become the Eurasian hub of a vast series of trade routes tying together Europe, Central, South, and East Asia.<sup>100</sup>

Therefore, the completion of a project giving Turkmenistan an alternative outlet for its gas is vital to its freedom of manoeuvre and ability to charge market prices for its product. Turkmenistan's government under first Niyazov and now Berdymukhammedov certainly understood this game, though it has had few options in practice and in 2005-06 was clearly looking for

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<sup>100</sup> Robert Cottrell, "Putin Seeks Eurasian Alliance of Gas Producers," *Financial Times*, January 22, 2002, [www.ft.com](http://www.ft.com), "Putin Seeks Four-Nation Gas Alliance, Ties with Turkmenistan," FBIS SOV, November 14, 2000.

alternatives. One alternative was to compel Russia to buy gas at a higher price, a demand that Russia acceded to because it could always pass the cost onto its consumers like Ukraine, Belarus, and even Europe.<sup>101</sup> A second alternative to Niyazov's policies was to cultivate alternatives like China. By 2006, China had agreed to conduct explorations and feasibility studies for a gas pipeline to be built by China and bring Turkmen gas to it starting in 2009, and a recently discovered gas field.<sup>102</sup> That deal has now been consummated and construction of the pipeline has begun.

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<sup>101</sup> *Ibidem*.

<sup>102</sup> Stephen Blank, "Turkmenistan Completes China's Triple Play in Energy," *Jamestown China Brief*, VI, No. 10, May 10, 2006; "CNPC to Help Develop Turkmen Gas Field," *Alexander's Gas @ Oil Connections*, XI, No. 23, December 8, 2006, [www.gasandoil.com/goc/company/cnc64964.htm](http://www.gasandoil.com/goc/company/cnc64964.htm)

The third alternative pipeline route for Turkmenistan's energy, and one championed by Washington is for Turkmenistan to agree to ship oil or gas through pipelines to be built in the Caspian Sea that would then go on to the Baku-Tbilisi Ceyhan pipeline bypassing Russia and Iran. Finally, Washington has also championed the TAPI (Turkmenistan-Afghanistan-Pakistan-India) line that could send oil or gas south toward the Indian subcontinent and Indian Ocean. This project is still in the discussion stage and faces all the many obstacles to realization that are common to any multilateral energy pipeline deal plus the deterrent to its construction of the war in Afghanistan and Indo-Pakistani rivalry. Turkmenistan undoubtedly understands that if it declines to participate, it will fall wholly or more nearly wholly under Russian

domination for it will not have an alternative outlet save its pipeline to China. Moreover, if it opts out of the project, in view of the huge energy deposits recently found in Afghanistan, it alone will become the likely source for this pipeline causing Ashgabat to lose an enormous amount of money.<sup>103</sup>

For these reasons, these two options are the most effective long-term card available to Washington in the struggle to influence both the succession and the new leadership's subsequent policies and to achieve its objective of binding Central Asia to South Asia. The TAPI line, along with similar proposals concerning provision of more Central Asian electric power to India, Afghanistan, and Pakistan, are

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<sup>103</sup> Stephen Blank, "Afghanistan's Energy Future and its Potential Implications," *Eurasia Insight*, August 4, 2006.

part of the broader American scheme to undermine Russian efforts at consolidating an energy monopoly over Central Asia by reorienting at least some of Central Asia's energy flows southward.<sup>104</sup> As a former Indian diplomat, M.K. Bhadrakumar, has observed,

The thrust of the United States' so-called "Great Central Asia" strategy is to pull Tajikistan toward Afghanistan by the

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104 Assistant Secretary of State Richard A. Boucher, "The U.S.-India Friendship; Where We Were and Where we're Going," Remarks at the Confederation of Indian Industries, New Delhi, April 7, 2006, [www.state.gov/p/sca/rls/rm/2006/4320.htm](http://www.state.gov/p/sca/rls/rm/2006/4320.htm); Assistant Secretary of State Richard A. Boucher, "Remarks at Electricity Beyond Borders: A Central Asia Power Sector Forum," Istanbul, Turkey, June 13, 2006, <http://www.state.gov/p/sca/rls/rm/2006/67838.htm>; "Electricity Relights Washington's Central Asian Policy," *Jane's Foreign Report*, June 29, 2006, [http://www4.janes.com/subscribe/frp/doc\\_view.jsp?K2DocKey=/content1/janesdata/mags/frp/history/frp2006/frp70038.htm@current&Prod\\_Name=FREP&QueryText=](http://www4.janes.com/subscribe/frp/doc_view.jsp?K2DocKey=/content1/janesdata/mags/frp/history/frp2006/frp70038.htm@current&Prod_Name=FREP&QueryText=); Joshua Kuchera, "USAID Official Outlines Plan to Build Central-South Asian Electricity Links," *Eurasia Insight*, May 4, 2006, [www.eurasianet.org](http://www.eurasianet.org)

scruff of its neck, as it were, in an effort to draw the Central Asian region itself incrementally toward the South Asian countries – with Afghanistan acting as a hub, or a revolving door... The US has brought in financial institutions like the World Bank and the Asian Development Bank (ADB) to explore the possibility of funding trans-regional projects aimed at strengthening the infrastructure and communication links among the countries of the Central/South Asian region.<sup>105</sup>

Speaking of the recently opened bridge over the Pyandzh River that will bring together Tajikistan and

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105 M.K. Bhadrakumar, "Afghan Bridge Exposes Huge Divide," *Asia Times Online*, September 4, 2007, [www.atimes.com](http://www.atimes.com)

Afghanistan and was funded by Washington, the State Department openly advertised the merits of this project in integrating Central Asia with South and even East Asia. Specifically,

On the Tajik side, the bridge will connect to routes leading north, west, and east through roads that Japan plans to build or modernize; on the Afghan side, it will connect to Afghanistan's nearly completed ring road and Pakistan's port of Karachi through roads constructed with ADB financing.<sup>106</sup>

These American plans coincide with the desires of Central Asian states for broader exposure to Asian markets. Central Asian states in general show a growing interest in connecting their energy capabilities, including

hydroelectric power, with Afghanistan and South Asia beyond that. Thus, Turkmenistan is holding talks with Afghanistan about increasing supplies of electric power and building electric power lines to the latter and increasing the amount of electricity beyond what it has been supplying since 2003 at preferential prices.<sup>107</sup> Turkmenistan has also recently commissioned the construction of a gas shipment terminal near the Afghan border which, with the help of compressors, can unload up to 212 cubic meters of gas per hour.<sup>108</sup> Tajikistan hopes to sell electricity to Afghanistan by 2009; and Kyrgyzstan's Prime Minister Almaz Atambayev has asked for American help in getting access to participate in

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<sup>107</sup> Moscow, *ITAR-TASS*, in English, June 9, 2007, *FBIS SOV*, June 9, 2007.

<sup>108</sup> Ashgabat, *Turkmen TV Altyn Asyr Channel*, in Turkmen, June 9, 2007, *FBIS SOV*, June 9, 2007.

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<sup>106</sup> *Ibid.*

the reconstruction of Afghanistan, specifically in restoring infrastructure, getting Kabul to place orders in Kyrgyz plants, and in helping build hydroelectric stations to exploit Kyrgyzstan's water resources.<sup>109</sup> India has also been involved for some time with Kazakhstan and Uzbekistan in energy deals.<sup>110</sup>

Finally, it must also be grasped that as a result of the Indo-American rapprochement since 1998, India's and Central Asia's geo-strategic importance to Washington have grown considerably as has the understanding

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109 Bishkek, *Kabar News Agency* in Russian, June 8, 2007, *FBIS SOV*, June 9, 2007; Moscow, *ITAR-TASS*, in Russian, June 2, 2007, *FBIS SOV*, June 2, 2007.

110 Almaty, *Interfax-Kazakhstan I* in Russian, February 17, 2005, *FBIS SOV*, February 17, 2005; New Delhi, *Government of India Press Information Bureau Website*, in English, February 19, 2005, *FBIS SOV*, February 19, 2005; "Astana to Meet Indian Energy Requirements," *SAPRA India Bulletin*, August, 2005, p. 26; *Radio Free Europe Radio Liberty Newslines*, April 27, 2006.

of the importance of energy security in these regions.

Faced with the emergence of China and India as potential global powers, the US has attempted to realign its strategic imperatives in greater consonance with a shifting economic and military reality in which unchallenged US hegemony is not guaranteed. Although the US' global strategic interests have been shaped by its effort to stamp out global terror, American policy at a regional level will continue to be guided by long-term military and economic considerations, particularly bilaterally with other states. Although most of these considerations have long been identified, new security threats are emerging and will mould the outcome of US policy in Asia. One such critical security threat concerns the problem of "energy security". Energy security refers to the ability of a country to

minimize vulnerability to supply interruptions and price increases in energy provision. As the US National Intelligence Council's forecasting project speculates, "Growing demand for energy – especially by the rising powers – through 2020 will have substantial impact on geopolitical relations. [Therefore] The ability of the US to enable South Asian countries to maintain an adequate level of energy security is likely to be a crucial test of its policy in the region."<sup>111</sup>

Under the circumstances, then, it is hardly surprising that Washington has steadfastly championed the TAPI line as an alternative to the IPI pipeline; and in its own right is expected to use potential completion as an offer to Pakistan (and presumably India too) as an alternative to reliance

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<sup>111</sup> Saez, p. 658.

upon the IPI. Indeed, Pakistan awarded the construction contract to the American firm InterOil Corporation, no doubt causing Gazprom much disappointment.<sup>112</sup> American observers still believe that although Russia has gained clear advantages relating to the export of Turkmen gas, its dominance has not been accomplished and the situation is still unresolved. Nevertheless, Berdymukhammedov continues to insist that Turkmenistan, which some US officials consider to be the "most important part" of the new great game in energy, has enough gas for all its customers and is busy broadening its relations with everyone despite major deals with Moscow.<sup>113</sup>

### **The Record of the TAPI Line**

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<sup>112</sup> "Government Awards Contract to American Oil Company of Laying Gas Pipeline," *www.Paktribune.com*, August 20, 2007; Khalid Hasan, "US-Iran Standoff Affecting IPI Adversely," *www.DailyTimes.com*, July 15, 2007.

<sup>113</sup> "Turkmenistan: "The Most Important Part" In the Energy Great Game," *Eurasia Insight*, September 5, 2007.

The development of this line can only be seen, like that of the IPI line, in the context of its surrounding geopolitical context. The idea of a pipeline connecting Turkmenistan and Afghanistan into Pakistan originated in the 1990s. But; despite the signing of an agreement on this pipeline in 2002; the state of war in Afghanistan, Niyazov's greed and capriciousness, and Indo-Pakistani suspicion blocked it until now when it has been revived by the ADB which is willing to finance it. The US government views it as a key point in its regional policy design. Even so, the ADB was already promoting the idea of regional cooperation as a key to security, development and peace in South and Central Asia in advance of American interests in such regional integration.<sup>114</sup>

By 2006, the US' Greater South Asia

project had been formulated and was based on integrating these two adjoining regions on the basis of creating transportation and energy corridors to facilitate Central Asian exports to South Asia and reduce their dependence upon Russia. The three main components of this project are therefore oil and gas pipelines, high-voltage power transmission lines, and motor roads.<sup>115</sup>

By 2006, Tajikistan and Turkmenistan were already exporting power to Afghanistan, and Uzbekistan had begun to build power transmission lines to Afghanistan. But, in the absence of a network of energy transportation routes, Central Asian countries' full export potential in energy and other commodities was and is going unrealized. Tajikistan,

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<sup>114</sup>Beijing, *Xinhua*, in English, July 31, 2003, *FBIS SOV*, July 31, 2003.

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<sup>115</sup> Atajan Yazmuradov, "The U.S.' Greater South Asian Project: Interests of the Central Asian Countries and of the Key Non-Regional Actors, *Central Asia and the Caucasus*, No. 5 (41), 2006, pp. 81-94.

Kyrgyzstan, Afghanistan, and Pakistan then followed suit in 2006 by reaching agreement to build a power transmission line from Kyrgyzstan through Tajikistan and Afghanistan to Pakistan. The World Bank is the expected financier and Washington an active supporter of the project.<sup>116</sup>

The TAPI line's recent development is part of this broader design. In February 2006, India was formally invited to participate. This project gained consideration because it is more feasible than the IPI, does not run the risk of American or European sanctions and pressure. The proposed pipeline would carry gas from the Dauletabad field through Afghanistan to Multan, Pakistan, a distance of 790 miles with another 400-mile extension to India. Afghanistan would earn transit fees. The pipeline's estimated cost is \$2.9 billion to Pakistan and

another \$6.5 million for the extension to India.<sup>117</sup> On May 19 2006, bearing in mind American pressure that inhibited the likelihood of completion of the IPI pipeline, American support for the TAPI line, and US certification of extensive Afghan oil and gas deposits, India decided to join the TAPI pipeline project.<sup>118</sup> India also sought at this time to attach conditions ensuring that gas volumes contracted to it would not be affected if Pakistan required higher quantities than originally contracted for at Gwadar, its

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<sup>117</sup> Ahmad, *FBIS SOV*, April 24, 2006; Vinish Kathuria, "Securing energy," New Delhi, *Force internet Version*, in English, April 1, 2006, , *FBIS SOV*, April 1, 2006; Vidya Nadkarni, "India and Central Asia," Paper Presented to the Annual Convention of the International Studies Association Chicago, February 28-March 3, 2007, p. 10.

<sup>118</sup> New Delhi, *Doordashan DD-1 Television*, in Hindi, May 19, 2006, *FBIS SOvV* May 19, 2006; Chandigarh, *The Tribune Internet Version*, in English, May 19, 2006, *FBIS SOV*, May 19, 2006; Amitabh Rajan, "Iran Pipeline Not Easy, Delhi Turns to Turkmen Gas Fields," New Delhi, *The Indian Express Internet Version*, May 11, 2006, in English, *FBIS SOV*, May 11, 2006; Sandeep Bamzai, "India Smells Oil in Afghanistan," New Delhi *Hindustan Times Internet Version*, May 18, 2006, *FBIS SOV*, May 18, 2006.

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<sup>116</sup> *Ibid.*, p. 85.

terminus.<sup>119</sup> Turkmenistan likewise supported India's inclusion in the project.<sup>120</sup>

By November 2006, the four partners were vowing to accelerate work to consummate the deal and also help Afghanistan become an energy bridge in parallel to the developments connecting Central and South Asian electricity networks.<sup>121</sup> India asked Pakistan for transit facility as part of this strategy of helping develop Afghanistan and now relied on US assurances concerning the pipeline's security. The ADB allotted \$1.5 million for feasibility studies for the 790 mile section from Turkmenistan to Pakistan. The TAPI line is supposed

to transport 100 million cubic meters of gas of which India's share is 60 million cm.<sup>122</sup>

As of May 2007, India had formally been included in the four party inter-governmental agreements being circulated by the ADB which was now playing the role of an honest broker and incorporating suggestions from all the parties into that draft. The capital cost of the TAPI line was now estimated at about \$4 billion rather than the original 2003 figure of \$3.3 billion. But, because India was included, as per the ADB's request, this pipeline now appeared to be a profitable venture despite the higher cost. Now, plans for the TAPI line called for two routes: a northern and a southern one. The northern route would originate at the Dauletabad gas field in Turkmenistan, go 145 Km in that country, 735 KM in Afghanistan

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<sup>119</sup> Khaleeq Kiani, "Deal on Gas Pipeline in Final Stages," Karachi, *Dawn Internet Version*, in English, August 23, 2006, *FBIS SOV*, August 23, 2006.

<sup>120</sup> New Delhi, *PTI News Agency*, in English, October 4, 2006, *FBIS SOV*, October 4, 2006.

<sup>121</sup> Reuel Hanks and Gregory Gleason, "Regional Electrical Integration: Panacea for Central Asia's Economic Woes," *Eurasia Insight*, December 7, 2006; "Work on TAPI Gas Pipeline to Be Accelerated," *UPI* November 26, 2006.

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<sup>122</sup> *Ibid.*

and 555 KM in Pakistan to Multan. India had requested that the northern route pass through Mazar-e-Sharif, Kabul, Peshawar, to Lahore for extension to the Indian city of Bikaner. On August 22, the ADB convened a meeting in Islamabad to finalize a framework for the deal, begin to specify respective quantities of gas allocation for each partner, and move toward the actual contacting of the parties with the ADB so that everyone's obligations over the 30 year life of the pipeline would be clear. The project is also envisaged as being completed by 2018, so it will not materially resolve Indian energy problems for at least a decade.<sup>123</sup>

### **Policy Recommendations for Washington**

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<sup>123</sup> "India Included in TAPI Gas Pipeline Project," *Alexnader's Gas & Oil Connections*, XII, NO. 11, June 14, 2007, [www.gasandoil.com/goc/new/nts72403.htm](http://www.gasandoil.com/goc/new/nts72403.htm); <http://www.iran-daily.com/13862916/html/ieconomy.htm>, August 28, 2007, from a report of August 13, 2007.

From a U.S. standpoint, the options available to Washington are neither plentiful nor are they encouraging. U.S. opposition to the IPI rules out support for Indian participation during the remaining lifetime of the Bush Administration. And, even if that were to change, Iran's greed and unreliability seem to have placed this pipeline beyond India's reach. Russia has moved forcefully to get as much gas as it can out of Central Asia; and China is not far behind. The same is true of oil where India is behind both Russia and China in gaining equity access to regional deposits.

Therefore, there really is only "one game in town", i.e., the TAPI line; and that is in doubt for several reasons. One is the uncertainty concerning how much gas Turkmenistan really has for export. More decisive is the fact that the war in Afghanistan is going badly; and

Pakistan could possibly implode, given the upsurge of violence and internal instability that has engulfed it since late 2007. Indeed, many observers in and out of Afghanistan fear that the war is being lost or soon could be lost.<sup>124</sup> Given the importance of the TAPI line to India, Pakistan, and Afghanistan, as well as the fact that Afghanistan itself has been found to be rich in energy, a Taliban victory or protracted instability in Afghanistan and/or Pakistan severely limits Washington's and New Delhi's options in Central Asia which are tied to the South Asian project described above. This means that the Bush Administration will, for the remainder of its tenure, likely oppose any support for the IPI pipeline project and try to persuade its allies, in this case including India, to invest more

resources in strengthening Afghanistan's civilian economy and defence capability. It also means that much stronger pressure must be brought to bear on the Musharraf regime in Pakistan to take actions that would stabilize it and reduce the ability of Taliban and other terrorists there who are pro-Taliban to destabilize Afghanistan and other countries too. More and more observers feel that this means pressure on Musharraf to resign and the need to find a new ruling formation that commands popular legitimacy and which can take more decisive action against the Islamic insurgents headquartered there.

In practice this means pressure on Pakistan to take these actions or support American and allied action against the locally quartered terrorists there; substantially increased investment by all members of the coalition supporting the Karzai regime in Afghanistan to overcome the

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<sup>124</sup> Jon Hemming, "Analysis-NATO Risks Losing the War in Afghanistan," *Reuters*, December 19, 2007

problems undermining the regime and to rebuild both economic and political capacity, continuing U.S. financial and political support for the TAPI line and for the development of indigenous Afghan energy capabilities. And, finally, continuing pressure on Pakistan government to reorganize itself so that it can effectively meet the challenges to its security that are far greater than any threat that India could conceivably make against it.

### **Implications and Conclusions**

These analyses of the two pipelines that are to serve as the main alternatives by which India would receive natural gas from Central Asia illustrate the obstacles facing India rather than its achievements which, to be fair, are considerable. First of all, it is clear that insofar as gas (and oil) from Iran and Central Asia are concerned, India is not and, to a large degree, cannot be the master of its destiny. This is not only a question of

its geographical separation from these locales, although that fact sets the stage for this conclusion. Rather, India, to obtain permanent access to these countries' energy supplies, depends on the outcome of Iran's relations with Washington, which blocks financing for Iranian development along with its political pressure upon India to desist from friendship with Iran, and on Central Asian states' freedom to sell to whomever they want. That freedom is under pressure from Moscow which seeks unfettered monopoly over their pipelines and production.

Furthermore, acquisition of energy through Central Asian pipelines rather than through direct equity investment and shipment by tankers (which forces Central Asians to ship the energy to a port either under Russian, Iranian, or Pakistani control) is contingent upon the end of hostilities in Afghanistan and continuing progress in relations with Pakistan. Third, India

confronts China in both Iran and Central Asia, and China has been more aggressive and more far-sighted in its strategy towards these states, particularly its energy dimension as it is now, as was suggested above, building up a network to connect Iranian energy with it through Central Asia and possibly Pakistan. India's failure to compete as aggressively as China is due to many factors, not least its own domestic energy programme, but it entails several costs with regard to access to Central Asian energy.

Other serious issues must also be considered here. India faces numerous obstacles in obtaining energy from Iran and Central Asia which go beyond mutual suspicion with Pakistan, the unresolved war in Afghanistan, and the potential for instability in Central Asia. The sheer poverty of the region relative to other energy producing areas makes it difficult to ensure adequate, not to

mention reliable, supplies and very costly to build infrastructure. For instance, as we have seen, the TAPI line will not be completed, under the most optimistic scenario, for another decade. But, India's demand will not wait. Ultimately, that pipeline is a stopgap unless it can open the door to other much larger and regular shipments of gas to India and for that matter Pakistan.

Yet, due to the direct and indirect consequences of American pressure upon Iran, India cannot count on its abundant supplies being available any time soon or in the volume or quantity that it hopes to obtain. This will be the case even if a real rapprochement with Pakistan is achieved. In other words, peace with Pakistan is highly desirable for many reasons going beyond India, but in and of itself it will do little to resolve India's energy supply problems. For India to overcome the penalty imposed

upon it by virtue of its geographical separation from Central Asia, Afghanistan must be stabilized in enduring fashion (something to which Indo-Pakistani rapprochement will certainly contribute) and states like Turkmenistan will have to be able to produce sufficient quantities of energy of all kinds for India.

If Iran remains out of the picture, not only will India have to rely mainly on the Gulf and on what it can find by emulating China and going global in its quest for energy. It will inevitably then have to rely on its own resources to a much greater degree. Apart from the inherent inefficiencies and rigidities of India's internal organization of its energy consumption and energy policymaking, this almost certainly entails expanded reliance upon nuclear energy (India will not be alone here, other states will surely follow a similar course). Given the present and foreseeable line-up on the

issue of India's nuclear power programme, an expanded reliance upon nuclear energy will trigger another ferocious outburst of opposition from the US and other anti-proliferation lobbies, the groups that Indian elites call the ayatollahs of non-proliferation. The controversy now raging around the US-India agreements of 2005-06 and the difficulties in getting Indian parliamentary agreement to what America insists upon in order to quiet Congressional opposition, underscores the difficulties facing India here.<sup>125</sup>

India's energy situation therefore unintentionally reveals the limits of what American partnership can offer it. Ironically, its American partner is the major obstacle to India being able to rely upon its long-time friend, Iran, for energy. To the extent

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<sup>125</sup> Henry Sokolski Ed., *Gauging U.S.-Indian Strategic Cooperation*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2007, contains a thorough but largely critical analysis of the energy issues connected with this deal.

Central Asia remains unstable, the outcome of such blockages can only enhance Russia's standing as a power that is ready, willing, and to some degree able to satisfy India's needs. Unless India can compete more effectively with its main Asia competitor, China, it may well have to keep relying more than ever on the Gulf and Russia for foreign energy unless it can reform its own house, or burn enough coal and nuclear power to satisfy its exploding demand.

Our assessment also reveals that in comparison with China, which is moving steadily towards an integrated network in Central Asia, and possibly in Africa as well, India is doing rather poorly in the energy sweepstakes.<sup>126</sup> For all the talk that China is wasting money and paying for long-term contracts at top of the

market prices, it is securing lodgements and presumably influence in places that India is not yet able to do. Since China is the benchmark against which India now measures itself, this must be highly disturbing to Indian elites and the government. China, for example, is far ahead of India in gaining access to Central Asian pipelines and in making or completing deals to begin construction of them. Similarly, the dates by when it should be obtaining Central Asian energy are much earlier than those when India hopes to be able to obtain energy from Central Asia. Again, ironically, due to US pressure upon Iran, China is the main Asian beneficiary of Iran's energy, and not India. The pressure from China and the sense of being unable to compete with it may provide another motive for India's greater reliance upon nuclear energy and for turning to Russia to fill up its shortfalls. And, to the extent

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<sup>126</sup> Blank, "China's Recent Energy Gains in Central Asia: What Do They Portend,?"

that Indo-Chinese competition for energy is unregulated (against the efforts by former minister Aiyar to find a cooperative solution to the problem), Indo-Chinese rivalry in Asia could also grow over time.

Thus, energy plays into the endless geopolitical and multi-level rivalries that now engulf Central Asia and the Caspian region. While it is behind China by a considerable degree, India is by no mean absent from the overall region as noted above. It is striving to gain greater access not just to land-based energy resources but to blocks in the Caspian Sea itself.<sup>127</sup> The proliferation of analyses concerning the future trajectory of energy politics, geo-economics, and geo-strategy throughout Central Asia

and South Asia, all testify to the increasing interdependencies and interpenetration of economic and political life in these countries and regions. Although it looks that the TAPI line may actually precede the IPI line into being, given the number of players, the stakes of the game, and the accelerating speed of developments in Central and South Asia, nothing is for certain. What is certain is that India, its rivals, partners, and interlocutors are all competing for energy access throughout the region and will continue to do so. It also is certain that they will also implicate this quest, as is already the case with the classical and more modern instruments of a search for influence, to lasting access and geopolitical position over the long term. But, beyond this, nobody can claim to know whether or not India will successfully acquire large stakes in Central Asian gas and/or oil or whether they will come from Iran,

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<sup>127</sup> “ONGC confirms Bid for Caspian Sea Blocks,” *Alexander’s Gas & Oil Connection*, XII, No.2, January 31, 2007, [www.gasandoil.com/goc/company/cnc70510.htm](http://www.gasandoil.com/goc/company/cnc70510.htm); Andrea R. Mihailescu, “Energy Watch,” *UPI*, January 8, 2007, cited at [www.earthtimes.org/articles/show/18479.html](http://www.earthtimes.org/articles/show/18479.html)

Turkmenistan, or some other source like Kazakhstan or Russia. While China seems for now to have stolen a march on India and not only in Central Asia, but in Africa and Southeast Asia as well with its recent deals in Africa and Myanmar; we cannot know how long that situation will remain as is or whether or not those states will find new and more energy that India can gain access to.<sup>128</sup> In other words, the outcome is uncertain, but the game goes on without any letup.

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<sup>128</sup> Gideon Lundholm, "China Trumps India in Myanmar Gas Stakes," *Asia Times Online*, [www.atimes.com](http://www.atimes.com), September 10, 2007.



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