Suddenly, Pipeline Project Sparks Interest --- Pakistan, India Summit Revives Plan for Gas To Travel Over Land
By Daniel Pearl

BOMBAY, India -- A planned summit of India's and Pakistan's top leaders is giving new momentum to a $5 billion international gas-pipeline plan that was once dismissed as a pipe dream. U.S. companies may be left out, though, because the gas would originate in Iran.

The decades-old pipeline idea, from gas-rich Iran east through Pakistan and into gas-hungry India, has always floundered on India's reluctance to deal with Pakistan. Since gaining independence in 1947, India and Pakistan have fought three wars and a bloody border skirmish two years ago that derailed efforts to establish some economic cooperation. On July 14, Pakistani Gen. Pervez Musharraf, who seized power in a 1999 coup and recently named himself president, is scheduled to arrive in Agra, India, for his first summit meeting with India Prime Minister Atal Bihari Vajpayee.

Pakistan officials have told reporters they expect the pipeline to be discussed. India's foreign ministry won't confirm that, but Mr. Vajpayee gave a green light to pipeline discussions during a recent trip to Tehran, industry officials said. India has previously limited itself to exploring undersea pipelines that avoid Pakistan. After the trip, Iran promptly asked Australia's BHP Petroleum to launch a feasibility study on a land route. "There have been some studies before, but I think this is the most official," an Iranian official said.

Pipeline talks could present a quandary for the Bush administration. Washington has encouraged India and Pakistan to reduce tensions on the subcontinent, but has strongly opposed previous energy projects involving Iran. U.S. oil companies are lobbying hard for the administration to let sanctions on Iran expire this year instead of renewing them for two years.

Though the 1,500-mile pipeline remains a long shot, it may be one of the few topics India and Pakistan can discuss without fear of political backlash at home. Neither country is likely to budge from their hardened positions on the disputed Kashmir territory, and low-level talks aimed at reducing risks of nuclear weapons have so far come to naught. Pakistan stands to gain badly needed revenue from transit fees; estimates range between $260 million and $600 million a year. India could get relief from a gas deficit that has fertilizer plants running on reduced fuel and power plants running on more-expensive naphtha.

Also, India's biggest private company appears to be shifting the balance in favor of an Iran pipeline. Reliance Industries Ltd., a Bombay-based polyester and petroleum company that is gearing up to challenge government monopolies in telecommunications and gas supply, recently launched a $10 million study on importation of liquefied gas from Iran to India by ship, in partnership with BP Inc. and National Iranian Oil Co. But industry officials familiar with Reliance's plans said the company is expressing interest in the pipeline option, too, because of its cost advantages and potential to provide a backup energy source for Reliance's huge industrial complex in India's northwestern Gujarat state.
Reliance wouldn't comment on its gas-supply plans. If the company does insert itself as a potential buyer of the pipeline gas, a deal could become easier to negotiate than if India's state-owned gas company were the buyer.

Still, "What's missing really at this moment is someone who would broker an arrangement," says Hugh McDermott, a principal of consulting firm Nexant Inc. who heads a U.S.-funded project promoting energy cooperation among South Asian countries. (Pakistan isn't yet involved).

The less India and Pakistan are willing to trust each other, the bigger role Iran is likely to play in any pipeline. One scenario being discussed within the gas industry is for Iran to agree on delivery all the way to the Indian border, paying Pakistan's transit fees and guaranteeing safe passage through Pakistan. Iran and Pakistan have warmed their previously frosty relations recently, but whether Iran -- or even Pakistan itself -- could really guarantee the pipeline's security is an open question. Matthew Forman, South Asia specialist at the London-based consulting firm Control Risk Group, said the pipeline would run through the huge and remote province of Baluchistan, a lawless haven for smugglers where suspected tribal militants recently attacked a Chinese petroleum-engineering company with bullets and rockets.

Pakistan "will have to work hard to give the impression [the pipeline] is safe and reliable," Mr. Forman said. "It is going to need some serious political will for it to go ahead."

Several competing proposals to bring natural gas to India have run into trouble lately. Enron Corp. recently withdrew from the latest plan for an underwater pipeline from the Persian Gulf. Unocal Corp. tried to promote a pipeline through Turkmenistan, Afghanistan, Pakistan and India, but Unocal shut down its Turkmenistan office in 1999, after finding the lure of transit fees wasn't enough to make Afghanistan a stable country. Unocal, Royal Dutch/Shell Group and other oil companies have staked out gas interests in Bangladesh, but Bangladesh officials have so far spurned oil companies' pleas to allow export of gas to neighboring India.