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Pipelines, Ports and Politics: The Gulf Region, Central Asia and India

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In the recent past, the Gulf region has witnessed three significant developments that can potentially shape its future economic and security dynamics. First, in July, the UAE commissioned a new oil pipeline that can discharge at Fujairah, a port in the Gulf of Oman overlooking the Indian Ocean; second, in August the Port of Singapore Authority (PSA), Singapore, pulled out of a contract to manage the Gwadar port in Pakistan; and third, Iran announced its intention to expand the Chabahar port to enable greater connectivity with Afghanistan. In geographic terms, Fujairah, Gwadar and Chabahar are strategically located at the mouth of the Gulf region in the Arabian Sea. Though not astride the Strait of Hormuz, the location of these ports is important to international shipping, regional security dynamics, and the political, economic, energy and security calculus of a number of countries as far as Central Asia.

The geo-economic significance of the Gulf region is well known and it is estimated to contain enormous quantities of oil reserves. Energy economists have predicted that the region will continue to be an important source of oil and gas and new areas both onshore and offshore are being developed elsewhere in the region. The geostrategic salience of the Gulf region emerges from a number of factors, including the safety of shipping through the Straits of

Hormuz, frequent Iranian threats to block the Strait and disrupt energy supplies, and the forward deployment of extra regional militaries, particularly the navies in Gulf countries.

In essence, the Gulf region is a space of competitive and cooperative dynamics where economics pivoting on energy resources and the associated supply chains are pitted against tensions between regional and extra-regional powers who seek to dominate regional affairs and exercise influence and ascendency to support their alliance partners. In the above context, this paper attempts to assess the impact of the developments at Fujairah, Gwadar and Chabahar on India and proffers options and priorities for policymakers.

Habshan – Fujairah Pipeline

In July 2012, the UAE announced that the first consignment of 500,000 barrels of oil from the Habshan fields in Abu Dhabi had been shipped successfully through the newly constructed pipeline to Fujairah oil terminal in the Gulf of Oman.[1] The pipeline was built by the China Petroleum Engineering and Construction Corporation at a cost of US $ 3.3 billion.[2] This 370 kilometers long pipeline runs through the UAE territory and has a capacity of 1.5 million barrels per day (bpd), which can be increased to 1.8 million bpd.

There is no doubt that the pipeline is a technological success and merits appreciation keeping in mind that it is laid in shifting sands and is able to withstand extreme heat and storms. Perhaps, what is more significant is that nearly 70 percent of UAE’s oil exports can now be shipped through this pipeline which corresponds to nearly 10 percent of the 17 million barrels of oil that is carried daily by ships through the Strait of Hormuz.[3] In essence, the UAE is now able to substantially overcome the ‘Hormuz dilemma’ and export bulk of its oil bypassing the strait and making the threat of closure quite redundant. This was the primary reason for the UAE to undertake the pipeline project as Iran had threatened to block the strait on several occasions in the past. The UAE also has territorial disputes in the Gulf involving the three islands of Abu Musa, Greater and Lesser Tunb since 1971 and the Iranian leaders have in recent times visited the islands to assert sovereignty which has caused concern in the UAE and other GCC member countries.[4]

Gwadar Operations Go to China

In 2007, PSA, Singapore entered into a commercial contract with the Government of Pakistan to develop and manage the operations of Gwadar port. In less than five years it decided to pull out of the 40 year contract due to several reasons including Pakistan government's inability to transfer land to the port **authorities after a public interest litigation filed in 2010 in which the Pakistan Supreme Court pronounced** a stay order against the allotment of Gwadar land to a foreign company; lack **of enthusiasm by the Pakistani investor lobby; and the inability of the port to attracting** significant traffic.[5]

Reportedly, the Pakistan government has now decided to award the contract to China Harbour Engineering Co Ltd (CHEC), a Chinese state-owned company, **to take over the Gwadar port operations. The** decision to invite China to Gwadar does not come as a surprise given that it had contributed nearly US $ 198 million of the US $ 248 million spent on the project.[6] However, it remains to be seen how the Pakistan Supreme Court views the Chinese engagement in Gwadar port operations keeping in mind that it is also a foreign company.

Pakistan is also keen that China constructs an oil/gas pipeline from Gwadar to Xinjiang to facilitate transporting the Iranian gas that was earlier part of the Iran-Pakistan-India pipeline project, which was shelved by India. A senior Pakistani government official has been quoted as saying "China's assumption of the port contract will be a landmark development, both for Pakistan and China…This has great value for China…We believe the Chinese may use their presence at Gwadar to lay down a pipeline in future for transporting Middle Eastern oil to western China."[7]

Development of Chabahar Port

Chabahar is an important Iranian port along the Makaran coast and offers Iran an easy access to the Indian Ocean. In the past, it has served as a maritime gateway and the British and the Portuguese had controlled Chabahar till 1616. Today's Chabahar is relatively new and was declared a municipality only about 40 years ago after which port development projects were started. Chabahar also gained strategic importance during Iran-Iraq war in the 1980s. Reportedly, Iran has invested about US $340 million in the project and 70 percent of the work in the first phase has been completed.[8]

The development of the port of Chabahar has been on the agenda of India-Iran bilateral discussions since 2003 but has gained higher priority in recent times. In August 2012, India, Iran and Afghanistan held a trilateral meeting to discuss the Chabahar port development project and agreed to speed up the process.[9] India may invest US $15 million to $100 million depending on the construction for the expansion of the port.[10] Delegations from the Indian Ports Association (IPA) have carried out an assessment of the work needed to be undertaken in the phase II of the project: (a) construct and operate a multi-purpose cargo berth with an investment of about US $20 million; (b) build a container terminal at an estimated investment of US $30 million; and (c) develop another bigger container terminal at a cost of about US $65 million.[11] The project is expected to be executed through the public-private-partnership (PPP) with some "risk capital" from the government.

Currently, ships of up to 50,000 tons dwt can be berthed at Chabahar. There are plans to augment the port capacity and the related infrastructure to accept larger vessels in five phases for handling 20 million tonnes of cargo by 2020.[12] The port is also expected to be connected trough rail and road networks with industrial hubs in Iran and also to serve as a transshipment hub for Zahedan, Afghanistan through a 600-kilometer connecting road.[13] Afghanistan presently uses the port of Karachi in Pakistan for its trade and also for receiving energy supplies. The initiative is also expected to serve a number of purposes including expansion of trade, investments and transit facilitation for the Central Asian Republics (CARs).

Assessment and Implications for India

Several Gulf countries are planning to construct pipelines across the Arabian Peninsula to tide over the Iranian threats to block the Strait of Hormuz, despite the US assurances to keep the strait open for international shipping. In that context, the Habshan-Fujairah pipeline is significant for the security of oil and gas supplies from the UAE to international customers. Likewise, Saudi Arabia has revived an old oil pipeline built by Iraq to bypass the Hormuz. The Iraqi pipeline in Saudi Arabia was built in the 1980s to escape the tanker war[14] in which several oil tankers were hit by missiles. The pipeline had been in disuse since the 1990 Iraq War and in 2001 Saudi Arabia took over the pipeline as reparation. It is now using the pipeline to transport gas to power plants in the west of the country and also to the Yanbu terminals in the Red Sea.

India is an important customer of oil and gas from the Gulf countries. According to India's Twelfth Five Year Plan (2012-17), the energy demand is expected to grow at around 6.5 per cent over the next five years.[15] India has limited domestic production capacities and will remain dependent on imports from the Gulf countries for supplies. The pipelines in UAE and Saudi Arabia will provide partial security against disruption arising from regional political and security dynamics, and can reduce shipping and insurance costs.

The Gwadar port is a symbol of China-Pakistan strategic partnership and as noted earlier the former has provided substantial financial support. Gwadar has attracted international attention and long been labeled as a node in China's 'string of pearls' strategy that would provide a number of maritime access points in the Indian Ocean which the Chinese navy should be able to use in case of crisis. However, the Chinese have dismissed such insinuations and argued that the Chinese investments in the project have no military dimensions. No doubt, Gwadar offers several economic opportunities and there are many strategic gains that China can accrue from the port to protect its interests in the Indian Ocean. It is fair to argue that China's interests in Gwadar go beyond the safety of their energy related shipping from the Persian Gulf, but the facility could provide the Chinese a forward base to monitor the US naval activity in the Persian Gulf region as also Indian naval activity in the Arabian Sea.

The India-Iran-Afghanistan agreement to develop and use of Chabahar port is a significant initiative. As far as India and Iran are concerned, they are keen to develop the port facility and have been discussing the issue for some time now. There are at least three drivers that encourage Afghanistan to be a stakeholder. First, it is a landlocked country and an access to the sea for conducting trade as also source energy supplies through Chabahar would contribute to economic development. Second, it is keen to have an alternate access keeping in mind that its relations with Pakistan remain tenuous. Besides, its supply chains are vulnerable to attacks by terrorist and militant groups. Third, it would like to develop good trading relations with Iran and integrate with the economies of the CARs, and the port of Chabahar offers ample opportunities for the development of its western region and also to trade with India. In that context, Iran and Afghanistan have signed a bilateral agreement to use the Chabahar port. The agreement has put to rest speculation that the US would prevent Afghanistan to engage Iran, which is facing economic sanctions. Interestingly, the US spokesperson has observed that the agreement would assist in regional trade and commerce. [16]

India-Iran cooperation in port infrastructure development was first referred to in 2000 during the discussion on International North South Transport Corridor (INSTC), a multinational project involving India, Iran and Russia.[17] This multimodal project envisages developing a seamless road, rail and sea network: Bandar Abbas to the port of Bandar Anzali in the Caspian Sea through Rasht and Astara in Azerbaijan to Saint Petersburg in Russia and also to Turkey. The project is significant for Russia as an access to the warm water ports of the Indian Ocean, which has been a Soviet endeavour since the Cold War when it had attempted to seek access through Pakistan. It was also felt that similar benefits would accrue to Azerbaijan and also to some Central Asian Republics who wish to participate in this venture.

The INSTC project has been a subject of debate and discussion in the strategic community but now finds reference in India's 'Connect Central Asia' policy unveiled in 2012.[18] Some CAR states are keen to see the INSTC made operational and consider it as an opportunity for an ocean access through Iran.[19] Besides, these nations are keen to use Bandar Abbas as a transshipment hub, which can also serve as an important land/sea node for trade with India.

It will be useful to keep in mind that the continued viability of using Bandar Abbas by India and CAR countries remains questionable. As long as Iran remains defiant on the nuclear issue against the US and Israel, threatens to mine the Strait of Hormuz, and its aggressive posturing against Gulf littorals continues, the Gulf waters will remain volatile. There is a very high probability of the Gulf waters being labeled as a 'high risk zone' by international shipping agencies, which would entail higher premiums, thereby raising costs of transportation, that in turn may not generate the desired dividends envisaged from the INSTC project. Further, the cost of development of the project has increased over the last decade and the participating countries may be reluctant to continue with the project. Instead, it is important to examine the viability of using Chabahar which is less prone to blockades other that those imposed by external powers.[20] It will be a new project and will certainly find favour among decision makers and stakeholders.

There are at least two ways in which Chabahar can provide access to the CARs (a) Chabahar-Melak-Zaranj-Delaram-Mazar-e-Sharif-Termez (Uzbekistan) ; and (b) Chabahar-

Mashad-Sarakhs-Askabad (Turkmenistan). In that context, the Indian Foreign Secretary has observed; "The Iranians have also plans for developing the rail lines which will go from Chabahar not only towards the Afghan border but further to the Turkmen border through Mashad. All these raise a number of very interesting possibilities in terms of the reconstruction at the industrial developments in Afghanistan in which we have a very large stake"[21] Thus Chabahar is strategically located to offer greater access to the CAR.

The recently announced 1,700 kilometer TAPI (Turkmenistan, Afghanistan, Pakistan and India) pipeline project to transport more than 30 billion cubic meters of gas from Turkmenistan merits critical evaluation. The pipeline will pass through difficult terrain and through Helmand and Kandahar provinces in Afghanistan that are in a perpetual state of political and security turmoil and through the restive Quetta region in Pakistan. These geographical and socio-political and security factors are likely to shape the fruition of the project as also delivery of gas in India at an affordable price. If the Iran-Pakistan-India (IPI) pipeline project is any indicator, the TAPI can potentially be a difficult initiative.

Concluding Remarks

There are a number of political, economic and strategic initiatives underway in the Gulf region and the contiguous Central Asia that have relevance for India. These present unique challenges and merit proactive strategies. So far, India has exhibited its desire to take the energy and infrastructure projects to fruition; but these need to be prioritized. The first priority for India should be to see that the Gulf region is stable and its diplomacy is adept to guarantee energy security and assured supply. The second priority should be to adopt a constructive approach in Afghanistan and ensure that new initiatives are taken for infrastructure development, develop capability of the Afghan security forces, generate employment opportunities, and improve the social condition of the people. In this context, the third priority should be to develop the Chabahar port so that Afghanistan is not a hostage to the insecurity in Pakistan, which has direct impact on India. It will also be useful to examine if a part of the TAPI gas is diverted towards Chabahar port which could serve as a terminus for Central Asian energy exports to other international customers including India. The next priority relates to a review of the economic viability of the INSTC, keeping in mind that it was conceptualized nearly a decade ago and there have been major transformations in maritime transportation system, which offer greater access not only in Russia (Saint Petersburg was the northern terminus of the INSTC) but to Central

Europe through the Black Sea (Odessa in Ukraine and other ports of Turkey) in shorter time. Finally, India will have to carefully watch the Chinese commercial and military/naval activities in Gwadar, which is an important node in the Chinese 'string of pearl' strategy and can potentially erode India's regional naval superiority.

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Notes

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