

Political Economy of Turkish-Iranian Relations: Three Asymmetries

Serhan ÜNAL & Eyüp ERSOY***

Abstract

Turkish-Iranian relations are in general regarded stable in the literature, and the causes of stability in bilateral relations are inadequately explained often by overemphasising the geopolitics of bilateral relations. Nonetheless, the geoeconomics of Turkish-Iranian relations is as significant as the geopolitics of the relations for both the current state of affairs in bilateral relations and their future. This article approaches Turkish-Iranian relations after 2002, when Justice and Development Party came to power in Turkey, from a different angle. Mainly from the geoeconomics perspective, it explores the implications of the energy relations for, in particular, bilateral economic relations between Turkey and Iran, and, in general, bilateral relations between the two states. It identifies three asymmetries in the relations as the primacy of geopolitics in bilateral relations, the primacy of energy in bilateral economic relations and the primacy of natural gas in bilateral energy relations. By moving from these asymmetries, the article concludes that energy relations may serve as a favourable starting point to broaden the scope of cooperation in Turkish-Iranian relations to include political issues of mutual concern.

Keywords: Turkey, Iran, Political Economy, Energy Trade

Türkiye-İran İlişkilerinin Politik Ekonomisi: Üç Asimetri

Özet

Türkiye-İran ilişkileri, literatürde genelde istikrarlı olarak değerlendirilmekte ve ikili ilişkilerdeki istikrarın sebepleri, çoğunlukla ikili

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ilişkilerin jeopolitiğinin aşırı vurgulanması ile yetersiz şekilde açıklanmaktadır. Yine de, Türkiye-İran ilişkilerinin jeoekonomisi, ikili ilişkilerin mevcut durumu ve geleceği için ilişkilerin jeopolitiği kadar önemlidir. Bu makale, Adalet ve Kalkınma Partisi'nin Türkiye'de iktidara geldiği 2002 yılından sonraki Türkiye-İran ilişkilerine farklı bir açıdan yaklaşmaktadır. Başlıca jeoekonomi perspektifinden olmak üzere, enerji ilişkilerinin, özelde Türkiye ve İran arasındaki ikili ekonomik ilişkilere, genelde iki devlet arasındaki ikili ilişkilere yansımalarını tetkik etmektedir. İlişkilerdeki üç asimetriyi, ikili ilişkilerde jeopolitiğin önceliği, ikili ekonomik ilişkilerde enerjinin önceliği ve ikili enerji ilişkilerinde doğalgazın önceliği olarak tespit etmektedir. Bu asitmerilerden hareketle, makale, enerji ilişkilerinin, müşterek siyasi meseleleri içerecek şekilde Türkiye-İran ilişkilerinde işbirliğinin kapsamını genişletmek için elverişli bir başlangıç noktası teşkil edebileceği sonucuna varmaktadır.

Anahtar Kelimeler: Türkiye, İran, Politik Ekonomi, Enerji Ticareti

الاقتصاد السياسي للعلاقات التركية الإيرانية: ثلاثة أبعاد لا تماثلية

ملخص

تعتبر العلاقات التركية الإيرانية في المجمل مستقرة نظريًا، وأسباب الاستقرار في العلاقات الثنائية عادة ما لا يتم تفسيرها بصورة مناسبة بالتركيز المفرط على الجوانب الجيوسياسية للعلاقات الثنائية، ولكن والأبعاد الجيواقتصادية للعلاقات التركية الإيرانية لا تقل أهمية عن الجوانب الجيوسياسية لتلك العلاقات بسبب كل من الأوضاع الجارية للعلاقات الثنائية، وبسبب مستقبلها أيضًا. وهذا المقال يعالج العلاقات التركية الإيرانية بعد ٢٠٠٢، عندما أتى حزب العدالة والتنمية إلى السلطة في تركيا، من زوايا مختلفة. فبصورة أساسية من الجوانب الجيواقتصادية فإن المقال يستعرض تداعيات علاقات الطاقة للعلاقات الثنائية بين البلدين. كما أنه يسلط الضوء على ثلاثة أبعاد لا تماثلية في العلاقة، مثل تفوق الجيوسياسي في العلاقات الثنائية، التفوق في الطاقة في العلاقات الاقتصادية الثنائية، والتفوق في مصادر الغاز الطبيعي في علاقات الطاقة الثنائية. وانطلاقًا من تلك الأبعاد اللاتماثلية، فإن المقال يخلص إلى أن علاقات الطاقة يمكن أن تمثل نقطة بداية مناسبة لتوسيع نطاق التعاون في العلاقات التركية الإيرانية لتشمل قضايا سياسية ذات اهتمام مشترك.

كلمات مفتاحية: تركيا، إيران، اقتصاد سياسي، تجارة الطاقة.

Introduction

Turkey and Iran constituted a critical crossroad in Eurasia in the past and it is exactly the same today; their political, economic, and cultural interactions with each other and with other countries continue to shape political, economic, and cultural developments on southwestern part of Eurasia. The relations between Turkey and Iran have deep historical roots, which tell much about the nature of them. In addition to the traditional aspects of bilateral relations, new aspects and dimensions have emerged in the last years. This change springs from the changing needs of the countries parallel to developing technology and inputs of the modern economic activity, which most of the time require a fourth factor of production, energy, in addition to the other classical three, that is, land, labour, and capital.

In the literature, Turkish-Iranian relations are in general regarded stable, if not peaceful, and the causes of stability in bilateral relations are inadequately explained often by overemphasizing the geopolitics of bilateral relations. Nonetheless, the geoeconomics of Turkish-Iranian relations is as significant as the geopolitics of Turkish-Iranian relations for both the current state of affairs in bilateral relations and their future. This article approaches Turkish-Iranian relations after 2002, when Justice and Development Party (JDP) came to power in Turkey, from a different angle. Mainly from the perspective of geoeconomics, it explores the implications of bilateral energy relations for, in particular, bilateral economic relations between Turkey and Iran, and, in general, bilateral relations between the two states. It argues that political economy of Turkish-Iranian relations is characterized by three intertwined asymmetries. First, political relations between the two states have not developed at the same pace and level of economic relations, and contrary to the cooperative nature of economic relations, display features of structural regional competition. Second, economic relations between Turkey and Iran are dominated by relations in the energy area. Third, energy relations between the two states are, in turn, dominated by relations in the gas sector.

This article, first, outlines the general parameters of Turkish-Iranian relations, especially in the post-2002 period. Second, it discusses economic relations between Turkey and Iran in all spheres of economic activity specifically in trade and investment. Third, it analyses

in detail the energy dimension in bilateral economic relations, and examines the dynamics in the establishment and sustainment of energy relations between Turkey and Iran. Fourth, it discusses the implications of energy relations between Turkey and Iran for economic relations between the two states. It concludes that the energy dimension in Turkish-Iranian relations has gained prominence in bilateral economic relations, and there is a risk that the energy dimension would increasingly dominate economic relations between Turkey and Iran causing underdevelopment in other spheres of economic activity.

The First Asymmetry: Primacy of Geopolitics in Bilateral Relations

The general course of Turkish-Iranian relations is affected predominantly both by regional and global developments, and the relations of the two sides with the third countries. Nevertheless, for a clear analysis, and also for the purposes of this article, the general parameters of bilateral relations between Turkey and Iran can be classified under two categories as political and economic, excluding social. Political parameters that affect the course of bilateral relations not only consist of divergent positions of the parties in regional geopolitics simply, but also include ideological differences. Political parameters of bilateral relations cannot be analyzed by ignoring the influences of the past. During the classical ages, Ottoman and Safavid empires struggled for regional political and religious leadership until they gradually and necessarily accepted each other as equally respectable parts of the same Islamic civilization.¹ In this situation, Ottomans' Sunni and Safavid's Shiite social and ideological structures, which left ideological and social imprints on the relations, were influential as well. Besides, the very game of power politics was also played by both sides at regional levels, not entirely detached from the historical development of bilateral relations. Among the current components of the Turkish-Iranian relations, these effects can still be observed in the foreign policies of these actors. There are certain factors which are prone to push Ankara and Tehran to the edges of competition. Turkey's and Iran's different positions on a number of current issues such as Israel's role and even the existence within the region, introduction of Western-oriented military assets in the

¹ John Calabrese, "Turkey and Iran: Limits of A Stable Relationship", *British Journal of Middle Eastern Studies*, Vol. 25, No. 1, 1998, p. 76.

region through Turkey's NATO (North Atlantic Treaty Organization) membership, Tehran's hesitations on Ankara's ambitious attitudes towards its 'near abroad' including some of the former Soviet republics, which form a great part of Iran's immediate neighbourhood in the Caucasus and the Central Asia, constitute severe obstacles to the further development of bilateral political relations. Turkey and Iran seem to come close to go into a 'proxy war', diplomatically at least, due to some recent developments like the intra-Iraq power struggle, the Arab Spring and the ongoing civil war in Syria. Particularly the Arab Spring seems to create new fields of rivalry between Turkey and Iran.² Not only the contentious issues originated in the Middle East, but also in the South Caucasus tend to undermine the relations. For example, Iran's pro-Armenian position on the problems between Azerbaijan and Armenia is an explicitly problematic issue. Iran's increasing support to Armenia in the form of commerce and energy stands as a reflection of the Turkish-Iranian rivalry in the South Caucasus.³ Nonetheless, there are some areas for the parties for cooperation. Collaboration against the terrorist groups PKK (Kurdistan Workers' Party) and PJAK (Free Life Party of Kurdistan) provides Turkey and Iran with a meaningful basis for a rapprochement.⁴ Suppression of these terrorist groups serves not only the security of each state separately but also strengthens regional stability and severely damages any kind of illegal trafficking.

In addition to the differences in the political realm, a significant level of ideological difference can be observed between Turkey and Iran. The most striking and explicit one is the different regime types of two states which shape their actions and affect foreign policy preferences. While Turkey has a secular state mechanism administered by a relatively conservative government, Iran has a religious state mechanism managed by a radically conservative government. On the one hand, the political culture of the former was constructed within the framework of Western secularism with a tough set of Turkish conservative state tradition and upon a strong heritage of the

2 Reza Solat and Hooshang Azizi, "Rivalry and Cooperation in the Iran-Turkey Relations in the Light of the Arab Spring," *Discourse: An Iranian Quarterly*, Vol. 13, No. 3-4, 2012, p. 119-143.

3 Lamiya Adilgızı, "Iran-Armenia Ties Strengthening to Counter Turkey-Azerbaijan Alliance", *Today's Zaman*, March 31, 2013, <http://www.todayszaman.com/news-311218-iran-armenia-ties-strengthening-to-counter-turkey-azerbaijan-alliance.html>.

4 Bulent Aras, Rabia Karakaya Polat, "From Conflict to Cooperation: Desecuritisation of Turkey's Relations with Syria and Iran", *Security Dialogue*, Vol. 39, No. 5, 1998, p. 506; Dexter Filkins, "The Shadow Commander", *The New Yorker*, September 30, 2013, http://www.newyorker.com/reporting/2013/09/30/130930fa_fact_filkins.

Ottoman Empire. On the other hand, that of the latter is, ostensibly at least, dependent on a tradition of statehood dated back to ancient Persia and revised through the Islamic Revolution in 1979, and was tailored in accordance with the real political needs of pragmatic Islamism. The difference between Ankara and Tehran is best observed in their attitudes towards Israel. The first approaches Tel Aviv cautiously, and yet open to stronger cooperation as long as Palestine is not oppressed and the rights of Palestinians are respected. Contrary to Ankara's generally moderate and reasonable policy, Tehran's foreign policy discourse apparently calls for the eradication of Israel from the map altogether.⁵ During the pre-2002 period in Turkey, namely before the AKP governments, there was a much broader ideological difference between the secular-republican Turkish elite ruling the country and their Iranian counterparts. With the rise of a relatively conservative political elite in Turkey, religious (not sectarian) emphases of Iran in its foreign policy has become much less disturbing for Turkish decision makers.⁶ Appreciation of Hassan Rouhani, who is the current president of the Islamic Republic of Iran, towards AKP (Adalet ve Kalkınma Partisi) is a good example for this.⁷ Thus, a considerable ideational barrier before more cordial relations has disappeared. Despite all the divergent preferences of both states in terms of geopolitics, both actors are willing to capitalize on geoeconomics to grasp the possible benefits through rationalizing their positions.⁸ Nonetheless, despite significant developments in bilateral economic relations, the primacy of geopolitics is still conspicuous in Turkish-Iranian relations. As an example, according to Kösebalaban, there is a "deep geopolitical rivalry" between Turkey and Iran, and "the most significant factor in Turkish foreign policy making vis-à-vis the Middle East is the emergence of Iran's regional hegemony."⁹

Economic parameters, however, are linked with the political course of the relations, and still are detached from them to a considerable extent. They are interrelated since Turkey and Iran are prone to use

5 Calabrese, "Turkey and Iran: Limits of A Stable Relationship", p. 77.

6 Aras and Polat, "From Conflict to Cooperation: Desecuritisation of Turkey's Relations with Syria and Iran", p. 495; Bayram Sinkaya, "Rationalization of Turkey-Iran Relations: Prospects and Limits", *Insight Turkey*, Vol. 14, No. 2, 2012, p. 141.

7 Hassan Rouhani, "Religion and International Relations: Some General Reflections, with Particular Emphasis on the Experience of the Islamic Republic", *Iranian Review of Foreign Affairs*, Vol. 1, No. 1, Spring 2010, pp. 31-32.

8 Sinkaya, "Rationalization of Turkey-Iran Relations: Prospects and Limits", p. 138.

9 Hasan Kösebalaban, "Turkey and the New Middle East: Between Liberalism and Realism," *Perceptions*, Vol. 16, No. 3, 2011, p. 93-114.

mutual economic benefits as a facilitating dynamic for deepening their relations. The most recent example for this is the 1.200% increase in Turkish gold exports to Iran from 2011 to 2012.¹⁰ The main reason for this increase was the desire of Turkey to strengthen bilateral economic relations, and the desire of Iran to circumvent the sanctions imposed on it unilaterally by the US and the EU, and thus to undermine the isolation of Iran by using gold instead of money transfers via the international banking system (see Figure 1). Similarly, regional economic conditions have induced Ankara and Tehran to approximate to each other economically. Turkey seeks to enjoy the economic benefits of its territorial proximity to Iran, which is as a natural gas and oil exporter without sizable outlets for its potentially immense gas exports. Nonetheless, neither party approaches to a cordial Turkish-Iranian political partnership. There are certain reasons underlying this refrainment, which are fundamentally associated with the political parameters of the relations. Turkey's and Iran's different positions on a number of current issues, particularly on regional transformations in the Middle East, constitute some obstacles for establishing more lasting relations in investment in the economic realm.¹¹ This constitutes the underlying rationale behind the cautious attitudes of the two states. They endeavour to minimize their possible losses in case of a crisis while maximizing their gains by maintaining and increasingly strengthening economic relations. Spectacular trade volume in opposition to poor direct investment flows between the two countries is a proof of this cautionary economic policy.

The Second Asymmetry: Primacy of Energy in Bilateral Economic Relations

Economic relations between Turkey and Iran reflect the enormous potential for further cooperation and prove the capability of parties to develop mutually beneficial economic relations rapidly as it has been the case since the advent of AKP in Turkey in 2002. Bilateral trade volume was only around \$ 2.4 billion in 2002, which increased nine times in a decade and rose up to \$ 22 billion in 2012.¹² In this situation, the above-mentioned competent economic structure of the two countries is an important factor. The remarkable develop-

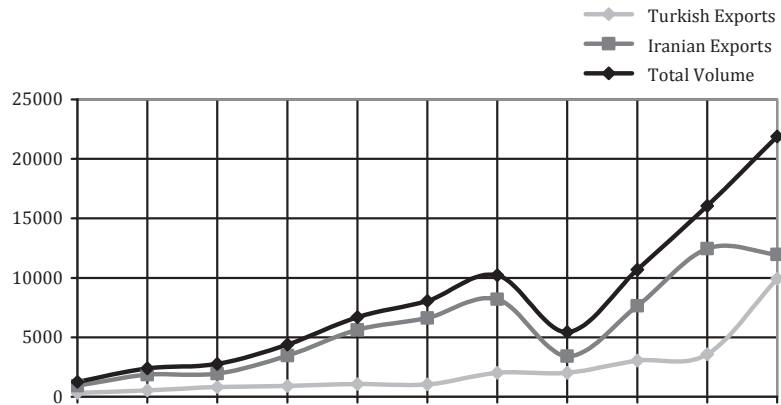
¹⁰ TMoE, "Iran Country Report 2012", 2013, p. 4.

¹¹ Ali Omid, "A Comparative Analysis of the Turkish and Iranian Foreign Policy towards the Arab Revolutions," *Discourse: An Iranian Quarterly*, Vol. 10, No. 3-4, 2012, p. 29-52.

¹² TMoE, "Iran Country Report 2012", p. 3.

ment and considerable potential springs from Turkey's need for energy which Iran can provide, and Iran's need for industrial goods which Turkey can provide to a large extent. The bulk of Turkish exports to Iran consist of gold, especially for the last two years, steel, textiles, and industrial goods, while Iranian exports to Turkey mainly include natural gas, oil, coal, electricity, pistachios, and fertilizers.¹³

Figure 1. Turkish-Iranian Trade Volume (2002-2012, in million \$US)



Source: TMOE

Nevertheless, there is a negative balance of trade to the disadvantage of Turkey. In 2011, Turkey's deficit in its trade with Iran climbed up to \$9 billion, which later decreased to \$2 billion in 2012.¹⁴ These figures make Turkey as the third largest market for import and export for Iran, which is only sixth and third in Turkey's foreign trade respectively.¹⁵

13 TMOE, "İran İslam Cumhuriyeti'ne İlişkin Temel Bilgiler", <http://www.ekonomi.gov.tr/upload/C74985FF-D8D3-8566-4520E92CB063EEF8/%C4%B0ran-son.pdf>.

14 TMOE, "Iran Country Report 2012", p. 3.

15 Turkish Embassy in Tehran, January 2014, <http://www.musavirlikler.gov.tr/index.cfm?dil=EN&ulke=IR>.

Table 1. Turkey and Iran's Places in the Mutual Trade

	Turkey in Iran's Export:	Turkey in Iran's Import:
IRAN	<i>Third</i>	<i>Third</i>
	Iran in Turkey's Export:	Iran in Turkey's Import:
TURKEY	<i>Third</i>	<i>Sixth</i>

Source: TMoE

Apart from the merchandise trade, there are sizeable business opportunities for the Turkish companies in Iran, which have undertaken projects equal to \$3.8 billion so far and almost half of which was undertaken in 2012.¹⁶ Turkish construction companies have undertaken projects equal to \$1.92 billion so far and the bulk of it consists of housing and infrastructure projects; the total amount was only \$83.5 million until 2004.¹⁷

Although these figures and the pace of the development in bilateral economic relations display a promising relationship for the parties, a detailed analysis displays some serious shortcomings in Turkish-Iranian economic relations. One of the main reasons behind the rapid increase in trade volume has been the exploitation of the idle capacity, namely normalization of the relations, rather than the application of a new and innovative neighbourhood strategy. For example, Turkey ratified the Bilateral Agreement for the Promotion and Protection of Investments with Germany in 1962, with Argentina in 1995, with the Republic of Korea in 1994, and with Israel in 1999.¹⁸ Yet, a similar agreement between Turkey and Iran waited for ratification for nine years until February 2, 2005.¹⁹ In the same way, Turkish-Iranian Business Council could only be established in 2001.²⁰ Only after these developments, legal and institutional bases of bilateral economic relations could be strengthened. The essence of the AKP

16 TMoE, "İran İslam Cumhuriyeti Ülke Sunumu", <http://www.musavirlikler.gov.tr/upload/IR/IRAN%20SUNUMU.ppt>.

17 TMoE, "İran İslam Cumhuriyeti Müteahhitlik Hizmetleri Ülke Profili", [http://www.musavirlikler.gov.tr/upload/IR/2012%20IRAN%20mutedahhitlik%20hizmetleri%20raporu%20\(paylasilir\).pdf](http://www.musavirlikler.gov.tr/upload/IR/2012%20IRAN%20mutedahhitlik%20hizmetleri%20raporu%20(paylasilir).pdf).

18 TMoE, "Türkiye'nin Taraf Olduğu Yatırımların Karsılıklı Tesviki ve Korunması Anlaşmalarının İçeriği ve İşlevleri", 2013, pp. 3-4.

19 Ibid., p.4; "Milletlerarası Andlaşma", *Resmî Gazete*, Şubat 2005, <http://www.resmigazete.gov.tr/eskiler/2005/02/20050225-2.htm>.

20 Turkish-Iranian Business Council, January 2014, http://en.deik.org.tr/Konseyl/112/Turkish_Iranian.html.

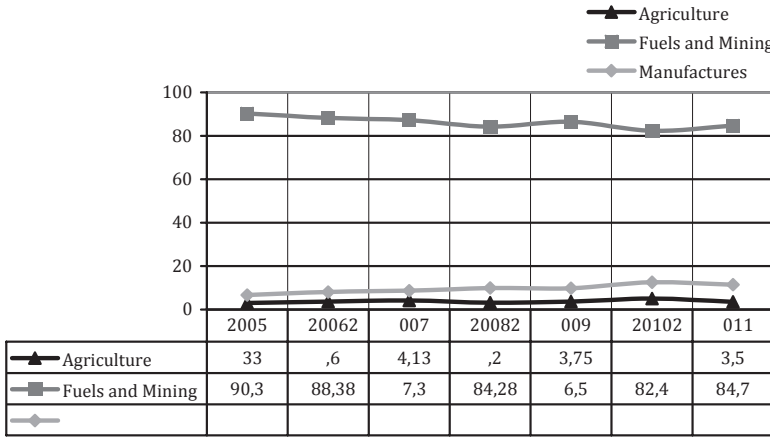
governments' success in Turkish-Iranian relations is hidden in their ability to take advantage of the idle capacity in the bilateral economic relations. Thanks to these steps, foreign direct investments of the Turkish nationals in Iran rose to \$163 million between 2002 and 2013. In the same period, direct investments of the Iranian nationals in Turkey amounted to \$101 million.²¹ A Turkish company, Gübretaş, which bought the largest fertilizer factory in Iran in 2008, plans to make an additional \$150 million investment in Iran in three years' time.²² When these figures are compared with those in the previous paragraph, it can be said that permanent long-term engagements in Turkish-Iranian economic relations are outweighed by temporary short-term mutual gains. Ankara and Tehran tend to prefer focusing on easy-to-change areas such as commerce, but not on hard-to-change areas such as foreign direct investment. In this picture, the only lasting trade relationship between the two countries is the natural gas trade via pipelines, and the electricity trade via interconnection lines. In other words, energy relations seem to dominate the economic aspect of the relations between Turkey and Iran.

An important aspect of Turkey-Iran economic relations is energy trade which has the largest effect on the bilateral economic relations not only for its share in bilateral trade volume but also for its vital strategic importance for both actors. Turkey is an energy-thirsty country with its rapidly developing economy, which lacks ample indigenous energy resources to meet its domestic consumption. Although its eastern and southern neighbours enjoy having immense richness in natural resources, Turkey chronically suffers from energy scarcity in terms of fossil fuels. On the other hand, Iran has vast hydrocarbon resources despite insufficient refinement capabilities and a relatively weak industrial base. Thus, a severe need appears for Iran for capital and industrial products, and these economic necessities can be met in exchange of energy resources. In Iran's export structure, fuels, and mining products constitute the bulk of the volume.

21 TMoE, "İran İslam Cumhuriyeti Ülke Sunumu".

22 "Gübretaş'tan İran'a 150 milyon dolarlık yatırım", *Dünya*, January 5, 2012, <http://www.dunya.com/gubretastan-irana-150-milyon-dolarlik-yatirim-142469h.htm>.

Figure 2. Iran's Export Structure (2005-2011, in %)



Source: The Central Bank of The Islamic Republic of Iran (CBol)

If the two countries' geographical proximity to each other and complementary economic structures are considered together, there is a favourable impetus to further economic cooperation not just particularly in the energy field. Energy relations between Turkey and Iran do not only mean natural gas pipelines. Bilateral energy relations can be summed up under three main categories: natural gas pipelines, oil trade, and electricity interconnection.

The Third Asymmetry: Primacy of Natural Gas in Bilateral Energy Relations

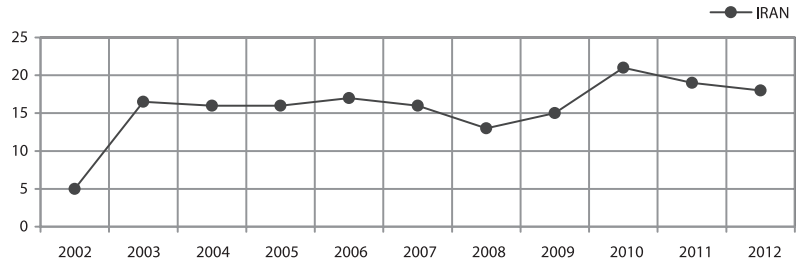
In terms of natural gas, relations between Ankara and Tehran are almost a perfect example of a positive-sum, win-win game. Turkey can only meet 1.7% of its annual consumption from its domestic production and accordingly Turkey is dependent upon foreign suppliers such as Iran.²³ Natural gas trade between the countries started with a treaty in 1996. In 2005, the amount Turkey imported was just above 4.2 bcm²⁴ but, in 2011, it shifted up to the nearly 8.2 bcm which accounts for 19% of the total natural gas supply to Turkey which is around 44 bcm.²⁵

23 EPDK, "Doğal Gaz Piyasası Raporu 2011", 2012, p. 36.

24 EPDK, "Doğal Gaz Piyasası Raporu 2011", p. 32.

25 EPDK, "Doğal Gaz Piyasası Raporu 2011", p. 31.

Figure 3. Iran's Share in Turkey's Natural Gas Imports (2002-2012, in %)



Source: EPDK

Although significantly high volume of the gas trade and the relatively low transport costs are present, Iranian gas is the most expensive gas Turkey imports with its price around \$500 per 1000 cubic meters; it is followed by the Russian gas which is said to be around \$430.²⁶ Despite the fact that the very high costs of natural gas dependency both in economic and potentially in political terms presents a serious challenge, it is an imperative for Turkey to further natural gas trade with Iran due to a variety of reasons. Among them, economic and strategic necessities have the utmost priority. The first one, the economic necessity, is twofold. The first pillar is the share of natural gas in Turkish power generation sector. The current level of technology assigns a vital role to fossil fuels in electricity generation and the natural gas is an indispensable one. Modern economic activity and the life standard largely depend upon every kind of machines and systems using and consuming electricity. Therefore, today, electricity supply has already become the blood of the economy, and of the daily lives of population. Turkey's problem is its limited indigenous conventional resources available to the power generation sector. At this point, the only way for Turkey is to appeal to exogenous energy sources, and Iran stands as one of the most plausible options with its geographical proximity via a land connection, high natural gas production capacity, and strong desire to convert its natural resources into economic income. Iran has the second largest natural gas reserves in the world only after the Russian Federation and holds 15.7% of the proved global reserves

26 İsmail Altunsoy, "Rusya Doğalgaza yüzde 8 değil, yüzde 4 indirim yaptı", *Zaman*, March 30, 2013, http://www.zaman.com.tr/ekonomi_haber-inceleme-rusya-dogalgaza-yuzde-8-degil-yuzde-4-indirim-yapti_2071769.html.

as of 2011²⁷ and thus Iran is considered by Turkey as a long-term supplier. If Turkey were not in need of sustainable natural gas supplies for power generation, Turkey would not be interested in Iran's share in global reserves as much as it is interested today. However, natural gas has 44.7% share in Turkish electricity generation mix.²⁸ Thus, the structure of Turkey's power generation sector appears as one of the causes of Turkey's economic need for Iranian natural gas. Besides, when economic need is considered together with strategic necessity, to be examined later, Turkey-Iran natural gas trade assumes more importance for Turkey.

The second pillar of economic necessity is the extent of natural gas usage in every aspect of economy ranging from cement industry to domestic heating. 52% of the aggregate natural gas supply in Turkey is consumed by sectors other than the power sector, and in this, both industrial consumption and heating have equal shares of 26%.²⁹ These figures indicate the extent of natural gas usage in Turkey, and also imply a nightmare scenario for Turkey in a possible case of natural gas interruption. For example, the cement industry is one of the most energy-intensive sectors of the Turkish economy. The ratio of energy costs reach up to 60%³⁰ and even up to 70% in the sector's aggregate bills.³¹ The energy-intensive nature of the sector pushes investors to increase energy efficiency of factories, and the public sector completely supports these steps in the cement sector by providing it with some financial options.³² Nevertheless, Turkey's need for imported natural gas continues at an increasing rate, and the demand for Iranian gas grows proportionate to this need.

In terms of industrial need, Iranian gas has some advantages in comparison to other suppliers of Turkey with some of its technical qualifications. For example, Iranian natural gas has the sixth highest calorific value among the top ten natural gas producers with

27 EIA, "International Energy Outlook 2011", 2012, p. 64.

28 EPDK, "Elektrik Piyasa Raporu 2011", 2012, p. 13.

29 DEKTMK, "Enerji Raporu 2012", 2013, p. 76.

30 Republic of Turkey Ministry of Science, Industry and Technology, "Çimento Sektör Raporu – 2011/12", 2013, p. 12.

31 Turkish Cement Manufacturers' Association, Association, "Enerji ve Tabii Kaynaklar Bakanı Taner Yıldız: "Çimento Sektörünün Çalışmalarını Peşinen Destekliyoruz", June 2013, <http://www.tcima.org.tr/index.php?page=icerikgoster&cntID=316>.

32 Development Bank of Turkey, "Türkiye Kalkınma Bankasından Limak Çimentoya Kredi", January 2014, http://www.kalkinma.com.tr/tkb_limak_cimentoua_kredi.aspx.

its 39.356kJ/m³ in 2011, while Russian natural gas, Russia being the main supplier of Turkey, has a calorific value around 38.232kJ/m³.³³ Apart from the industrial need for Iranian natural gas, heating of houses and other building stocks becomes a sensitive topic in Turkey in almost every winter, as it is generally the case for the other natural gas importer countries. There are roughly 8 million domestic natural gas users, and these consume more than a quarter of the aggregate natural gas supply in Turkey.³⁴ Moreover, this number is expected to rise in the foreseeable future as the project for providing natural gas supply to all provinces of Turkey to be realized with the natural gas supply to 11 provinces and five districts in addition to the existing ones is underway.³⁵ Therefore, continuous supply of Iranian natural gas is of paramount importance for the Turkish life standard, and a possible interruption in the supply is certain to create adverse effects for Turkey by causing problems in power generation, industrial production, and even in heating. Nevertheless, there is not such a risk at the moment as both states, particularly the Iranian authorities, enjoy the rationalization of bilateral relations in the energy relations.³⁶

As long as the natural gas trade between the countries is sustained on the basis of economic rationality, the relationship continues as a positive-sum one. On the other hand, in Turkey, almost every topic related with Iran is politicized to a certain degree today, predominantly due to the U.S.-led international sanctions. As international sanctions tighten Iran's energy export capabilities, Iran has started increasingly to sell its energy resources as ingredients of other products, such as cement. Thus, energy-related topics have the potential to incrementally evolve into a zero-sum type game. The more Iran subsidizes its economy by supplying cheap energy, the more Turkey loses its competitiveness and markets to Iran. For example, the cement market in regions around Turkey and Iran which has been controlled extensively by Turkish producers for years, has started to incline to the Iranian cement because of its cheaper price, and Turkish producers regard Iran's energy advantage as a danger for themselves.³⁷ Statistics do support the fears of Turkish pro-

33 IEA, "Key World Energy Statistics 2012", 2013 p. 60.

34 EPDK, "Doğal Gaz Piyasası Raporu 2011", 2012, p. 53.

35 EPDK, "Doğal Gaz Dağıtım Lisansı İhalaleri", December 2013, <http://www2.epdk.org.tr/lisans/dogalgaz/lisansdatabase/ihale.asp>.

36 Aras and Polat, "From Conflict to Cooperation: Desecuritisation of Turkey's Relations with Syria and Iran", p. 508.

37 Bulent Yoldaş, "Çimento ihracatında İran tehlikesi kapıda", *Sabah*, April 1, 2010, <http://>

ducers. For example, Turkey's cement export to Iraq is in decrease since 2009 in significant scales and more interestingly, even Turkey itself has started to import cement from Iran in growing amounts.³⁸ Therefore, Turkey's interest is in sustainment of the energy relations within the framework of de-politicization. Nonetheless, natural gas trade between the countries cannot completely be detached from strategic concerns.

The second necessity that induces Turkey to further its natural gas trade with Iran is of strategic nature. The essence of the strategic necessity is Turkey's need to diversify its gas imports. Net energy importer countries are in an energy dependent position upon foreign suppliers. Thus, because of the extent of energy usage in economy and daily life, uninterrupted energy flow gains prominence in foreign policy preferences and actions. The perception of energy supply as an issue of foreign policy paves the way for the securitization of energy issues.³⁹ Apart from maintaining the life standards of citizens, energy dependency may create a strategic weakness for countries in world politics⁴⁰. For this reason, countries include natural gas, which is sold at higher prices in their energy mix in addition to cheaper supplies. The same logic is applicable to the Turkish tendency to increase gas imports from Iran. In 2005, the share of the largest supplier of Turkey, the Russian Federation, was around 62% while that of Iran was slightly below 12%; as of 2011, the share of the former decreased to 58% and Iran's share rose up to 19% and became the second largest supplier of Turkey.⁴¹ This increase was not accidental. In other words, the strategic weakness of Ankara vis-a-vis Moscow forced it to seek for new gas suppliers, and since it was the closest supplier with the easiest transport route, Iran was the answer. Only by increasing the Iranian share, it has been possible for Turkey to alleviate its vulnerability to Russia at least to a certain degree.

www.sabah.com.tr/Ekonomi/2010/05/01/cimento_ihracatinda_iran_tehlikesi_kapida; "Çimentocular İran'dan rahatsız", *Zaman*, July 6, 2013, http://www.zaman.com.tr/ekonomi_cimentocular-irandan-rahatsiz_2107866.html.

38 Republic of Ministry of Turkey Science, Industry and Technology, "Çimento Sektör Raporu – 2011/12", p. 12.

39 David G. Victor and Linda Yueh, "The New Energy Order Managing Insecurities in the Twenty-first Century", *Foreign Affairs*, Vol. 89, No. 1, 2010, pp. 61-73; D. Ülke Arıboğan and Mert Bilgin, "New Energy Order Politics Neopolitics: From Geopolitics to Energeo Politics", *Uluslararası İlişkiler*, Vol. 5, No. 20, Winter 2009, pp. 109-132.

40 Brenda Shaffer, *Energy Politics*, Philadelphia, University of Pennsylvania Press, 2009.

41 EPDK, "Doğal Gaz Piyasası Raporu 2011", pp. 31-32.

In terms of oil trade, the two countries have almost perfect relations. However due to the international political atmosphere created by the U.S.-led international community, this situation does not seem to continue the same. Turkey can only meet 11% of its consumption from indigenous sources, and the rest is imported from a number of countries both by pipelines and by tanker ships.⁴² In general, there is an inverse relationship between Turkey’s crude oil imports from Iran and Russia; when one increases the other decreases. In this perspective, the last three years are not an exception; the Iranian crude oil increases its share in Turkish oil imports at the expense of Russian crude oil. The shares of Iran and Russia can be seen below:

Table 2. Iranian and Russian Shares in Turkey’s Oil Imports

Country	2005	2006	2007	2008	2009	2010	2011	2012
Iran (%)	29	38	36	36	23	43	51	39
Russia (%)	31	29	40	33	41	20	12	11

Source: EPDK

Because there are no oil pipeline connections between Turkey and Iran, oil import to Turkey is done by tanker ships. There are no significant security risks in the Black Sea through which the Turkish-Russian oil trade is made. Contrary to this, Turkish-Iranian oil trade is subject to many security risks, such as possible instabilities in and around the Strait of Hormuz, although there are strong ties between Turkey and Iran thanks to the oil trade, international sanctions still damage the relations. The most explicit sign is the rapid fall of the Iranian share in the Turkish oil imports; it decreased more than 25% in one year from 2011 to 2012. The more sanctions are tightened, the more importers of the Iranian crude are to be asked to find new suppliers, and apparently Turkey will be one of them.⁴³ Nevertheless, Iran is the fourth largest oil producer with its 5.5% share in the global aggregate production as of 2012.⁴⁴ Therefore, it can be challenging for Turkey to find new options. Having considered this

42 EPDK, “Petrol Piyasası Raporu 2012”, 2013, p. 14.

43 “US passes sanctions bill to hit Iran’s oil exports”, *Hurriyet Daily News*, August 2, 2013, <http://www.hurriyetdailynews.com/Default.aspx?pageID=238&nid=51856>.

44 EIA, “Key World Energy Statistics 2012”, p. 11.

hardship and the 25% decrease in the Iranian share, an exemption was issued by the US Congress for Turkey on 3 December 2012.⁴⁵ Depending upon this exemption, Turkey can maintain the existing relations somehow in the foreseeable future.

On the other hand, Turkey has strong ambitions to become an energy hub by developing Ceyhan, which is already an important energy terminal on the shore of the Mediterranean. Currently, the total refinement capacity in Turkey is 28.1 million tones and the capacity usage ratio is 78.7%.⁴⁶ In addition to the existing capacity, 25 million tonnes of additional refinement capacity will be put in operation in five years' time.⁴⁷ When these constructions are completed, Turkey's need will almost double, and most probably, Turkey will have to import the Iranian crude in larger quantities even if the sanctions continue with more tightening. Fortunately, for both Turkey and Iran, sanctions may not continue as the same, thanks to the recent P5+1-Iran negotiations.⁴⁸ Furthermore, Turkey's plans to become an energy hub require this⁴⁹ and many expressions of the respective Turkish authorities give some clues on the realization of this scenario.⁵⁰ Iran, however, as an oil exporter with limited refinement capacity, is considerably dependent upon foreign supplies especially for gasoline needs.⁵¹ Although Iran endeavours to increase its refinement capacity with upgrades and modernizations, positive development in the sector is curtailed by the sanctions. Though a weak possibility, Iran will have to meet its gasoline and diesel needs from Turkish refineries, when the construction of two new refineries in Turkey, one in Adana on the Mediterranean Sea and the other in İzmir on the Aegean Sea, is completed. Thus, bilateral trade volume would increase, and Turkey's disadvantageous position would change to a certain extent.

In terms of electricity trade, the extent of Turkish-Iranian relations is quite limited. However, even though it is far less insignificant in comparison to natural gas and oil trade for the moment, this situation is

45 Kenneth Katzman, "Iran Sanctions", Congressional Research Service, January 2014, p. 19.

46 EPDK, "Petrol Piyasası Raporu 2012", p. 13.

47 EPDK, "Petrol Piyasası Raporu 2012", p. 12.

48 "Obama defends Interim Nuclear deal", *BBC News*, November 25, 2013, <http://www.bbc.co.uk/news/world-middle-east-25095673>.

49 John Roberts, "Turkey As A Regional Energy Hub", *Insight Turkey*, Vol. 12, No. 2, 2010, p. 42.

50 "Turkey Not to End Iran Oil Imports: Erdogan", *Press TV*, May 18, 2013, <http://www.presstv.ir/detail/2013/05/18/304146/turkey-not-halting-iran-oil-imports/>.

51 EIA, "Iran Report", p. 11.

expected to change. Currently, there are two lines connecting Turkish and Iran networks, one has 400 kV and lying between Başköy in Turkey and Khoy in Iran and the other has 154 kV capacity and lying between Doğubeyazıt in Turkey and Bazargan in Iran; both lines are operational.⁵² The first electricity import of Turkey from Iran started in 1996 with 54.6 GWh and it later decreased to 23.5 GWh in 2003, probably as a side effect of the economic crisis, which shook the Turkish economy in 2002.⁵³ Still, it has increased 50 times in an eight years' time and reached 1074.5 GWh in 2011. Turkish Electricity Transmission Company (TEİAŞ) plans to increase interconnection capabilities of Turkey with its neighbours both to enlarge electricity import/export capabilities of Turkey and to develop the Turkish infrastructure, which are necessary for making Turkey an energy bridge.⁵⁴ Although Iran is an electricity exporter country in the region, consumption peaks force Iran to import electricity from a number of countries including Armenia and Azerbaijan under a swap agreement.⁵⁵ On the other hand, Iran plans to add 5,000 MW installed capacity to its power generation sector annually which is expected to support Iran's general strategy to become an electricity supplier to the whole region as a supplement for its foreign policy objectives.⁵⁶

Maintaining and intensifying the energy trade is not only Turkey's desired choice. Iran is also quite keen on converting its natural resources into economic power through its energy relations with Turkey. In terms of the geopolitics of energy, Turkey holds a central place, and serves as a natural bridge between energy-rich countries and energy-thirsty economies. Iran, as a member of the former group, has very limited options to transport its natural gas to importers in the West except through Turkey as a transit country, in addition to exporting its natural gas to the Turkish market.⁵⁷ Therefore, for Tehran, to establish and further energy relations with Turkey

52 TEİAŞ, "Mevcut Enterkonneksiyon Hatlarının Net Transfer Kapasiteleri Duyurusu", December 2013, <http://www.teias.gov.tr/Dosyalar/NetTransferKapasiteleri.doc>.

53 TEİAŞ, December 2013, [http://www.teias.gov.tr/T%C3%BCrkiyeElektrik%C4%B0statistikleri/istatistik2011/uretim%20tuketim\(22-45\)/23.xls](http://www.teias.gov.tr/T%C3%BCrkiyeElektrik%C4%B0statistikleri/istatistik2011/uretim%20tuketim(22-45)/23.xls).

54 TEİAŞ, "Stratejik Plan 2011-2015", 2012, pp. 39-40.

55 EIA, "Iran Report", p. 21.

56 "Iran to double electricity export to Turkey by late May", *Press TV*, April 4, 2012, <http://www.presstv.ir/detail/234603.html>.

57 Mehmet Öğütçü, "Turkey and Changing Dynamics of World Energy: Towards Cleaner and Smarter Energy", *Insight Turkey*, Vol. 12, No. 3, 2010, p. 70.

almost become an obligation.⁵⁸ As a reflection of this reality, 90% of the total natural gas exports of Iran are to Turkey.⁵⁹ Moreover, this is an indispensable income source for the Iranian economy. The bulk of the Iranian exports, more than 84%, consist of fuels and mining products, that is, oil and gas.⁶⁰ While richness in natural gas is leverage for Iran's regional influence, it is also a strategic weakness for both the Iranian economy and its foreign policy. Accordingly, rectifying the two aforesaid asymmetries in bilateral economic relations, which are the primacy of natural gas in energy relations and the primacy of energy in economic relations, has the promise of bringing a more mutually beneficial and sustainable relationship in Turkish-Iranian economic relations.

Conclusion

To recapitulate, political economy of Turkish-Iranian Relations is characterized by three intertwined asymmetries. First, political relations between two states have not developed at the same pace and level of economic relations and, contrary to the cooperative nature of economic relations, display features of structural regional competition. Second, economic relations between Turkey and Iran are dominated by relations in the energy area. Third, energy relations between the two states are, in turn, dominated by relations in the gas sector. Nevertheless, in the political economy of Turkish-Iranian relations, an approach excluding the energy dimension is an incomplete one. Political and economic relations are highly affected by the intensity of the Turkish-Iranian energy relations. When the economic aspects of bilateral relations are considered, Turkish-Iranian relations evolve into a more resilient and promising character. A spectacular rise in bilateral trade volume is the proof of the capacity of the two countries to gain from good neighbourhood policies. On the other hand, due to ongoing chronic mistrust and unresolved disputes, both of the actors are prone to pay attention to short-term benefits rather than to more long-term benefits like reciprocal direct investments. Among the various constituents of the economic aspect of the relations, energy holds a privileged position as the bulk of the economic relationship consists of energy trade. This is another version of what is called as the 'resource curse' in

58 Gareth M. Winrow, "Turkey and East-West Gas Transportation Corridor", *Turkish Studies*, Vol. 5, No. 2, 2004, p. 30.

59 CBoI, "Iran Central Bank Annual Review Report 2011-2012", 2013, p. 4.

60 WTO, "Trade Profiles 2012", 2013, p. 86.

the literature, which causes underdevelopment in the other fields of the economic activity and damages the respective countries' capabilities to spread their economic engagements to fields other than energy. Thus, it can be concluded that since the energy trade between Turkey and Iran serves as a crucial asset with its enormous volume, the pragmatism of geoeconomics continues to outweigh the geopolitical concerns in Turkish-Iranian relationship. This could be a favourable starting point to broaden the scope of cooperation in Turkish-Iranian relations to include political issues of mutual concern.

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