The Turkish-Iranian Gas Relationship:

Politically Successful, Commercially Problematic

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NG 38

January 2010

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ISBN

978-1-907555-01-5

Preface

The Turkish-Iranian gas trade is one of the more important and under-researched Caspian and Middle East gas issues. It is important not so much because of its size but because – in contrast to the speculation about future pipelines and large scale trade in this region – it has been operating for some years and has encountered a number of problems which have not been easy to either document or define.

Elin Kinnander's internship during the Autumn of 2009 has given us the opportunity to publish a properly researched paper on this relationship. Elin's knowledge of Turkey and the Turkish language, as well as her diligence in tracking down disparate sources of data, has helped to greatly illuminate the contradictory aspects of Iranian-Turkish gas trade. In the face of substantial difficulties in terms of lack of information and data, she has done an outstanding job in completing what, as far as I know, is the first in-depth analysis of this relationship. I am really grateful to her for spending this time with us, and very happy to publish this paper on an extremely important topic for all serious students of Caspian/Middle East gas relations with Europe.

Jonathan Stern, Oxford January 2010

Acknowledgement

I would like to thank Jonathan Stern for giving me the opportunity to write this working paper and supporting me during the process of writing. I also give my thanks to various people within the industry, academics, journalists and officials in Ankara that I interviewed for this paper. Finally, I would like to give special thanks to individuals at the Oxford Institute for Energy Studies that in various ways assisted me in my research: Simon Pirani Anouk Honore, Hakim Darbouche, Gareth Winrow, Florence Geny and Laura El-Katiri.

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Introduction

With proven natural gas reserves standing at 991.6 trillion cubic feet (Tcf), Iran holds the world's second largest gas reserves after Russia[1]. Since the Islamic revolution in 1979, the production of gas in Iran has mainly been intended to meet the domestic demand[2]. However, at the end of 2001 Iran began to export gas to Turkey. Besides the Turkish desire to explore the Iranian gas market, the huge natural gas resources have also attracted international energy companies worldwide. However, from the Iranian side the focus has mainly been on oil exports, and the Iranian gas market has been very difficult for international companies. Policy makers in Iran have also been hard to cooperate with, and tough conditions have been imposed on any company seeking to invest in Iran´s natural gas fields. The most successful Iranian gas export trade in the post-revolutionary era has been between Iran and Turkey even though this relationship, which is the focus of this paper, has been far from successful.

This paper intends to examine the bilateral natural gas trade between Turkey and Iran, through analyzing the commercial natural gas cooperation, but also their political relationship. The intention is also to present an analysis that could contribute to the broader picture of Iran as a potential gas supplier to the fourth corridor, i.e. the European market. Bilateral trade between Turkey and Iran reveals much about the commercial reliability of both parties. This is important because the political and commercial relationships between these two countries are of crucial importance for a possible future natural gas route from Iran to Europe.

[1] Energy Information Administration. *Country Analysis Briefs (Iran).* *http://www.eia.doe.gov/emeu/cabs/Iran/NaturalGas.html*
[2] Alan J. Day. *The Middle East and North Africa.* 2004, Page: 404

1. The Turkish – Iranian historical relationship

The political and economic relationship between Turkey and Iran has throughout history been characterised by highs and lows. This intricate relationship has to a large extent been shaped by the two countries' desire to dominate their common region, both economically and politically. There have been times of substantial economic cooperation but also several serious crises and disruptions.

The entire period of the Ottoman Empire witnessed a mutual rivalry between the Ottoman and the Persian Empire, which was particularly intense during the period of the Safavid dynasty[3]. However, the relationship between the two regional powers improved substantially from the 18th to the 20th centuries. The initial detente was reached during the Qajar dynasty[4], which may be explained by the fact that both experienced a common threat from the European and Russian superpowers[5].

At the beginning of the 20th century a pivotal event completely reshaped relations between the two neighbouring countries: the collapse of the Ottoman Empire, which resulted in a new situation for (the present) republican Turkey. The foreign policy embraced by Turkey guaranteed a move towards her Western neighbours. Iran, however, did not follow the same pattern. This can be argued to have resulted in one of the main obstacles for the modern Turkish – Iranian relationship. During the late 20th century, identity issues involving the Kurdish populations living on both sides of the border, and a rethinking of Islamic identities, began to dominate the two countries' relations. There has been an ongoing dilemma for both countries as they have been dependent on each other in some respects, but this could not conceal their disagreements on many fundamental questions.

The 1979 Islamic revolution in Iran was seen by Turkey as a major setback with regards to relations with their neighbour. Turkey found herself in a situation where she had to coexist

[3] Safavid dynasty 1501-1736: one of the most significant ruling dynasties of Iran.
[4] Qajar dynasty 1794-1925: was a Turco-Persian royal family who ruled Persia (today's Iran).
[5] Adel Allouche. *The Origins and Development of the Ottoman – Safavid conflict.* 1985, page: 65, 100.

with Iran in order to gain Iranian concessions for Turkey's fight against the terrorist organization PKK[6].

Iranian policy towards Turkey during the Iran-Iraq war (1980-1988) was very much influenced by the fact that Tehran did not want Turkey to act in a way favourable to Iraq, especially in terms of supplying Iraq with goods that in any way would harm Iran. It was also in Iran's interest to continue to have a functional relationship with Ankara in order to not become isolated from the rest of the world, and in that way diminish the economic sanctions imposed by the USA, Europe and the UN. Hence the economic factor was for both countries a crucial reason for continuing a functioning relationship; for Tehran it was also important to build cooperation in relation to oil and gas pipelines from Azerbaijan and Central Asia.

During the mid 1990s, Turkish – Iranian relations improved due to Iran's potential participation in an international consortium of companies formed to build a natural gas pipeline from Turkmenistan to Turkey, passing through Iran. The United States responded very negatively to this development, but to be able to obstruct the threat of the PKK, Turkey needed support from Iran, which became its priority.

During the 1990s a growing Islamist movement emerged in Turkey, which was seen as a major threat to the secular state led by the present Turkish government and the secular elite. In the 1994 Turkish local elections, the Islamically-oriented Welfare Party (WP) increased its strength by successfully capturing mayoral positions in several cities in Turkey, including Ankara and Istanbul. On June 28, 1996 the WP was able to form a coalition government with the True Path Party (TPP), and for the first time in history an Islamist prime minister, Necmettin Erbakan, was elected. Tehran viewed this as a great victory as Erbakan was well known and appreciated by Iranian officials, most of all because of his lack of criticism of the Islamic regime in Iran. Subsequently, the two countries signed a natural gas contract for 10 bcm/year[7], in spite of USA legislation calling for sanctions on companies investing more than $20 million in any year [8] in the gas and oil industries in Iran; it was this event that attracted most attention in the media and among countries worldwide[9]. On June 18, 1997 the WP-led

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[6] PKK, "Parti Karkerani Kurdistan", "The Kurdistan Workers' Party". The group was founded in the late 1970s and led by Abdullah Öcalan. The PKK's ideology is founded on revolutionary socialism and Kurdish nationalism. The PKK's goal has been to create an independent, socialist Kurdish state in Kurdistan, a geographical region that comprises parts of south eastern Turkey, north eastern Iraq, north eastern Syria and north western Iran.

[7] Robert Olson. *Turkey's relations with Iran, Syria, Israel and Russia, 1991-2000*. 2001, Page: 11-30

[8] Kenneth Katzman. *The Iranian Sanction Act (ISA).* Congressional Research Service. 2009. Page: 1, 5

[9] Robert Olson. *Turkey's relations with Iran, Syria, Israel and Russia, 1991-2000*. 2001, Page: 11-30

coalition government resigned due to strong pressure from the military, because of the party's Islamic orientation. After the WP-led coalition government's short period in office, the new administration in Turkey directed heavy criticism towards Iran for supporting Islamic propaganda in Turkey.[10]

The 2002 general elections in Turkey were won by the Justice and Development Party (AKP), led by Recep Tayyip Erdogan with 34.3% of the national vote. The only other party that was able to cross the 10% election threshold was the Republican People's Party (CHP). The election produced Turkey's first single party government since 1987 and the country's first two-party parliament in 48 years. The AKP party was founded by a reformist faction inside the former Islamist party, the Virtue Party, established after the Welfare Party resigned from office in 1997. Compared to both the WP and the VP, the AKP has been outspoken that it is not a political party with a religious agenda, or an Islamic "hidden" agenda (as many argue). It is, however, a party with Islamic roots, with both the Turkish Prime Minister Tayyip Erdogan and the President Abdullah Gul having been key figures in the Islamist VP.

1.1 The new Turkish Foreign Policy – an opportunity for an improved relationship with Iran

Since 2002, with the AKP in power, Turkey has embraced a new foreign policy, shaped by one specific person, the present Foreign Minister Ahmet Davutoglu. Mr. Davutoglu became Foreign Minister in May 2009. Prior to that he was the chief advisor to the Prime Minister, who influenced his ideas on what has to become Turkish foreign policy. This differs from the foreign policy pursued by Turkey more or less since the beginning of 20th century, despite the interruption during the WP's short ruling period. To understand the current relationship between Turkey and Iran, it is important to understand the principles behind the current Turkish foreign policy.

Turkey has for a long time been referred to as the bridge between East and West, but since September 11th Davutoglu argues that a new geographical perspective has emerged and a redefinition of Turkey's position is urgently needed. His position is based both on ideological

[10] A three party coalition constituted the new administration in Turkey comprising: Anavatan Partisi, Demokratik Sol Partisi and Demokrat Türkiye Partisi.

as well as geographical grounds. Turkey's geographically central position differs from similarly positioned countries as Turkey is both an Asian and European country, but also close to Africa through the Eastern Mediterranean. Hence, Turkey is in a position to influence its nearby regions including the Middle East, the Balkan, Caucasus, Central Asia, Caspian, Mediterranean, the Gulf and Black Sea countries. Davutoglu argues that Turkey should give up its past as a peripheral country and instead provide security and stability, not only for itself, but also for its neighbours. This would imply a more active, constructive role to provide order, stability and security. The new Turkish foreign policy is built upon five principles.[11]

1. "If there is not a balance between security and democracy in a country, it may not have a chance to establish an era of influence in its environs";

2. A "Zero problem policy towards Turkey's neighbours";

3. "Develop relations with the neighbouring regions and beyond". Davutoglu illustrated Turkey's increasing influence in the region by giving examples such as "Prime Minister Erdogan talked on the phone with Nebih Berri[12] and Saad Hariri[13], as well as with Siniora[14] and Hezbollah"[15] ;

4. "Adherence to a multi-dimensional foreign policy. Turkey's relations with other global actors aim to be complementary, not in competition"[16];

5. [Transition to] "Rhythmic diplomacy. Turkey's serious and sustained development in the field of diplomacy becomes evident if we look at the international meetings and organizations it has hosted since 2003. Turkey has gained more influence in international organizations [for example] Solana[17] and Larijani[18] met in Turkey to discuss the Iranian nuclear issue"[19].

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[11] Ahmet Davutoglu. *Turkey's Foreign Policy Vision: An Assessment of 2007*. Insight Turkey Vol.10. No. 1. 2008. Page: 77-81
[12] The speaker of the Parliament of Lebanon
[13] The prime minister of Lebanon
[14] Foud Siniora, a former Prime Minister of Lebanon
[15] Ahmet Davutoglu. *Turkey's Foreign Policy Vision: An Assessment of 2007*. Insight Turkey Vol.10. No. 1. 2008. Page: 81
[16] Ibid. Page. 82
[17] Francisco Javier Solana de Madariaga. High Representative of the Union for Foreign Affairs and Security Policy
[18] Ali Ardashir Larijani. Politician and the chairman/speaker of the Iranian parliament, he is a negotiator on issues of national security, including Iran's nuclear program.

The Foreign Minister Davutoglu explained Turkey's role in the Middle East as follows:

> Why are Turkey's prime minister, president, and minister of foreign affairs paying continuous visits to the Middle East? Because they are the only leaders who can contact the Middle Eastern leaders. If, for instance, there were no diplomatic relationship between two powerful countries such as Iran and Egypt, and if their leaders did not meet, there would be little possibility for establishing order in the Middle East. Would it be possible to establish order in Europe if France and Britain did not have any relations? In such case, a country like Germany or another important third actor would have to intervene and set up channels for political dialogue, just as Turkey has done and continues to do in the Middle East... Order in the Middle East cannot be achieved in an atmosphere of isolated economies.[20]

The new Turkish foreign policy demonstrates a new Turkish approach towards Iran. Turkey no longer considers itself surrounded by enemies, which was her historical view of neighbouring countries. The foreign policy principles presented above have resulted in improved diplomatic ties between the two countries. Nine meetings at the ministerial level were held in 2008, and it seems likely that the diplomatic traffic increased even more last year, as 2009 was designated "Iranian–Turkish culture year". Turkey's policy of embracing a zero problem policy towards Iran was stretched to its limits, when the Turkish Prime Minister Erdogan and President Gul were among the first to congratulate Ahmadinejad after his disputed landslide electoral victory in the summer of 2009. The Turkish attitude towards Iran's nuclear power program has been actively debated in the media and raised many eyebrows around the world when Abdullah Gul rejected the idea, promoted by the USA and Israel, that the best way to contract with Iran was to isolate, sanction and punish the country. Instead, he stated that Iran had the right to develop nuclear energy, but not nuclear weapons[21]. Turkey wants to be the facilitator between the US and its Western allies in its talks with Iran on Iran's nuclear power program. At the beginning of 2009, with the new US administration and with the Iranian upcoming election in the summer, hopes were high for resolving the nuclear issue. However after the Iranian election the opposite occurred; negotiations stagnated and the relationship between the USA, Europe and Iran did not improve.

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[19] Ahmet Davutoglu. *Turkey's Foreign Policy Vision: An Assessment of 2007*. Insight Turkey Vol.10. No. 1. 2008. Page: 82

[20] Ibid. Page 84-85

[21] The Guardian. *US must share power in new world order, says Turkey's controversial president*. 16/08/2008. http://www.guardian.co.uk/world/2008/aug/16/turkey.usforeignpolicy

2. The 1996 natural gas contract between Turkey and Iran

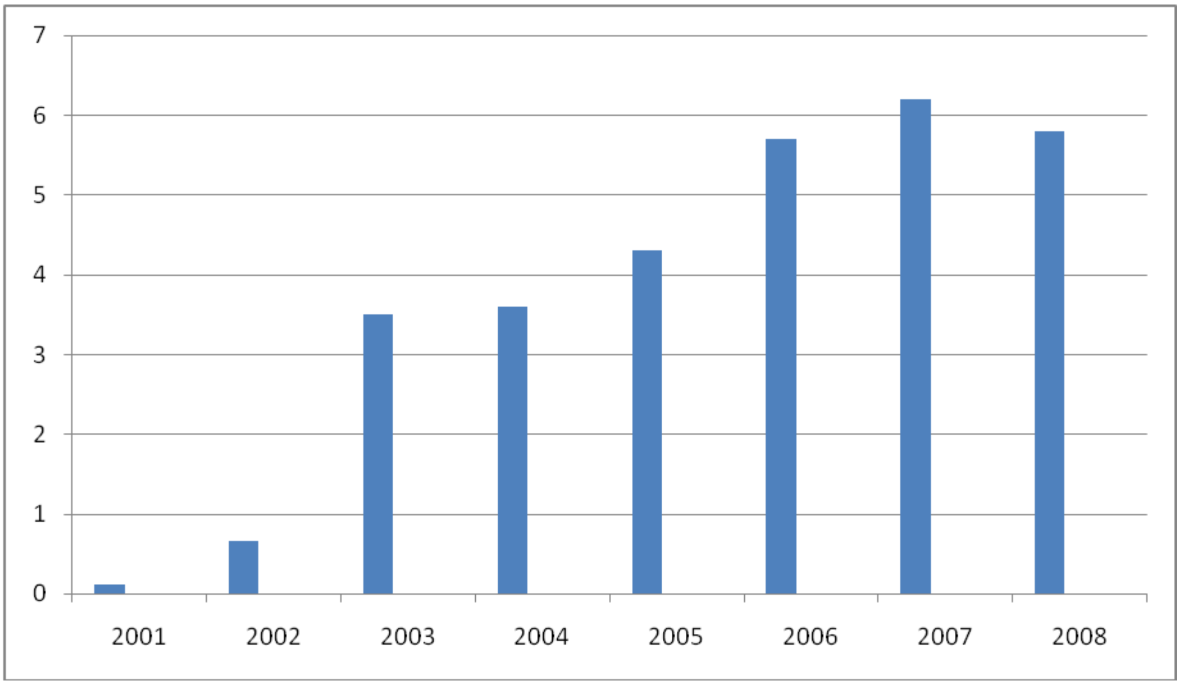
Natural gas is the fastest growing primary energy source in Turkey. From 1987 to 2007 gas consumption rose from 0.5 Bcm/year to 35 Bcm/year[22]. This rapidly growth in demand is due to population growth particularly in the younger age groups, but also rapid urbanization and economic development. Turkey has been one of the fastest growing power markets in the world for the last two decades[23]. Lacking natural gas resources it imports almost all of its requirements by pipeline from Russia, Azerbaijan and Iran; and liquefied natural gas (LNG) from Algeria and Nigeria. In 2009, natural gas demand declined due to the recession and (as will be discussed below) Turkey is currently oversupplied and will most likely not need to contract more gas until the late 2010s.

In 1996 a natural gas contract was signed between Iran and Turkey during the Turkish Welfare Party leader Erbakan's visit to Tehran, negotiations having commenced at the beginning of 1995 by the former True Path administration[24]. The agreement provided for the delivery of natural gas over a period of 23 years with exports of 4 Bcm in 2002 expected to rise to 10 Bcm (the capacity of the pipeline) in 2007[25]. However for various reasons trade has never reached this volume with the maximum being 6 Bcm in 2007 (see chart on page 10). However, both countries have stressed their desire to increase volumes to the level stipulated in the contract. Iranian gas is used both for industry and for residential heating in eastern Anatolia[26]. The Iran-Turkey pipeline was to be completed in 1999. However, due to accusations made by both countries that the other had failed to complete its section of the pipeline on time, deliveries started only in 2001. According to the agreement, both countries were responsible for their respective parts of the pipeline, i.e. Turkey's share includes the segment of the 680-mile pipeline from the Iranian border, plus other delivery costs to the

[22] Erdogdu Erkan. Natural Gas *demand in Turkey*. 21/12/2009. MPRA Paper No. 19091. Page 1-2 http://mpra.ub.uni-muenchen.de/19091/1/MPRA_paper_19091.pdf
[23] Ibid
[24] Philip Robins. *Turkish Foreign Policy Under Erbakan*. Survival, Vol. 39, No. 2 (Summer 1997) Page. 91.
[25] Manouchehr Moradi. *Caspian Pipeline Politics and Iran-EU Relations.* UNISCI Discussion Papers. 2006. Page:181
[26] The Jamestown Foundation. *Turkey Determined to press Ahead with Iranian Gas Deal.* 5/10/2007.

point of consumption. Iran's share relates to producing gas and its own pipeline costs, including its 170-mile section of the pipeline[27].

Iran's natural gas exports to Turkey in Bcm/y (2001-2008)[28]



Source: Cedigaz, *Trends and Figures in 2008*, Tables 6 and 7; *2006 Natural Gas Year in Review*, Table 5; *Trends and Figures in 2005*, Table 4 and 5; *Trends and Figures in 2004*, Tables 7 and 8; *Trends and Figures in 2003*, Tables 5 and 6; *Trends and Figures in 2002*, Table 6.

2.1 Problems with the natural gas trade between Turkey and Iran

The agreement between Turkey and Iran in 1996 was from the very beginning a hugely controversial contract and the US openly expressed objections. US officials tried to convince the Turkish government not to continue with the project. However, the Turkish policymakers were determined to diversify Turkey's gas supply and therefore went ahead with the contract[29]. According to the 1995 US Iran Sanction Act (ISA), companies that make an "investment" of more than $20 million within one year in Iranian's energy sector will be liable to sanctions. No sanctions were imposed on Turkey, however, since each country was responsible for the construction of its section of the pipeline and therefore this could not be

[27] Albert V. Benliot. *Iran: Outlaw, outcast or normal country?* 2001. Page: 114
[28] For exact numbers for Iranian gas export to Turkey by year see Cedigaz.
[29] Alan J. Day. *The Middle East and North Africa,* 2004. Page: 406

regarded as a Turkish investment in Iran. Furthermore, the US State Department did not impose ISA sanctions on the basis that Turkey would import gas from Turkmenistan that would transit through Iran. A framework agreement was signed by the Turkish President and the Turkmen President on October 29, 1998 for the implementation of the Transcaspian Turkmen-Turkey-Europe natural gas pipeline. According to the agreement 30 Bcm/year of gas was to be transported to Europe, including 16 Bcm/year of supplies to Turkey[30]. However, the agreement has not been implemented, nor has any agreement been implemented including Turkmen gas transiting Iran to Turkey and in 2002 Iran began to export gas directly to Turkey[31]. Discussions are still being held over the possibility for Turkey to import gas from Turkmenistan, or for Iran to import more gas from Turkmenistan, which in turn would enable it to export more gas to Turkey.

Since the beginning of Iranian natural gas exports to Turkey, there have been ongoing disputes between the two sides about either the volume or the price of the gas. In 2002 Turkey halted Iranian gas imports because of, according to the Turkish side, unsatisfactory technical specifications of the gas. However, the real reason seemed more likely to be lack of gas demand in Turkey at that time, and the fact that Turkey wanted to renegotiate the price and/or the take-or-pay terms of the contract. Later that year Turkey declared that it had been successful in securing a lower price and a reduction in take or pay[32]. The renegotiated agreement provided for a 9% price reduction with that percentage increasing proportionately with the quantity of gas purchased. If Turkey purchases the entire annual contract quantity (ACQ), the reduction will be more than 12%. The take-or-pay level, which constitutes one of the most important contractual conditions, decreased from 87% to 70%. In other words, if the Turkish petroleum corporation BOTAS does not purchase up to 30% of the ACQ, it will not be obliged to pay for it[33].The dispute over price continued during 2004 and the Turkish Energy Minister, Hilmi Guler stated that Turkey would seek international arbitration. The Iranian side responded by saying that the gas pricing dispute could not be resolved. As a result, the natural gas flow from Iran was cut off for four days during December 2004

[30] BOTAS. *International Projects. http://www.botas.gov.tr/index.asp*
[31] Kenneth Katzman. *The Iranian Sanction Act (ISA).* Congressional Research Service. 2009. Page: 1, 5
[32] The Global Oil and Gas Industry Articles. *Iran aims large-scale Natural Gas exports-to Europe.* 24/08/2006. http://www.oilgasarticles.com/articles/206/1/Natural-Gas-Trade-by-Iran--Potential-Customers/Page1.html
[33] Middle East Economic Survey. *Iran Resumes Gas Export To Turkey With 9% Price Discount.* Vol XLV NO 46. 18/11/2002. Page 18-19

because of "technical reasons"[34]. The dispute continued during 2005 and Turkey once again halted deliveries from Iran for several days in mid-April.

In 2006, Iran cut off supplies to Turkey on January 19, due to cold weather in Tabriz[35], where temperatures fell as low as 12° Celsius below average. Turkey compensated by importing more from Gazprom through the Blue Stream pipeline[36]. In September 2006 and August 2007, supplies were interrupted when the gas pipeline was hit by explosions three times on both sides of the border. These incidents where most likely caused by the PKK Kurdish separatist group. Turkey again compensated by increasing its imports from Gazprom through Blue Stream[37].

In late December 2007 and January 2008 Turkmenistan cut off gas deliveries to Iran which forced the latter to use its own gas for domestic demand and in turn led to an interruption in deliveries to Turkey. Turkmenistan claimed the interruption was due to technical problems and the need for emergency repairs. However, there has been speculation that the real reason was more due to a price dispute between Turkmenistan and Iran with the latter refusing to accept what Turkmenistan regarded as a market price[38]. The Iranian interruption of deliveries to Turkey coincided with particularly cold weather in January, when the coldest temperature overnight was estimated in the city of Shahre Kord in Western Iran to be 24° Celsius. In the capital Tehran the degree reached 7°. [39] The Iranian Interior Minister Mostafa Purmohammad reported that more than 2% of consumers had been cut off and that approximately 1.4 million end-users suffered some degree of disruption. On January 5, schools were shut and domestic flights cancelled because of heavy snowfalls[40] As a result, Turkey halted deliveries to Greece,

[34] The Global Oil and Gas Industry Articles. *Iran aims large-scale Natural Gas exports-to Europe.* 24/08/2006. http://www.oilgasarticles.com/articles/206/1/Natural-Gas-Trade-by-Iran--Potential-Customers/Page1.html
[35] Mert Bilgin. Energy Policy *Geopolitics of European Natural Gas demand: Supplies from Russia, Caspian and the Middle East*. 07/07/2008. Page: 7
[36] Ibid
[37] See more: European Gas Markets: Heren Energy. Issues (news briefs): 15/09/2006, 29/09/2006, 17/09/2007.
[38] Energy Tribune. *Reliable Gas? Not for Iran, Turkey, Europe.* 18/04/2008 http://www.energytribune.com/articles.cfm?aid=866
[39] Now Public: Crowd Powered Media. *Deadly weather paralyzes Iran.* 09/01/2009. http://www.nowpublic.com/weather/deadly-weather-paralyzes-iran
[40] Tehran Times. *Oil Ministry ready to weather frost.* 12/01/2008 http://www.tehrantimes.com/index_View.asp?code=160987

since the Azeri flows intended for Greece were used domestically. BOTAS also purchased LNG to make up the shortfall[41] and used up to a third of its stored gas[42].

2009 did not see any interruption in gas delivery from Iran to Turkey. However, BOTAS may have to pay Iran some $2 billion of take-or-pay penalties for 2009 in addition to the $704 million which it paid for gas it failed to take in 2008. The Ministry of Energy and Natural Resources in Turkey is reviewing take-or-pay conditions in all of the Turkish contracts and seeking ways to increase natural gas sales, with initial plans including the exemption of some sectors from paying the private consumption tax (ÖTV) and not increasing end user prices until the end of the year even if purchase prices increase[43].

3. The natural gas Memorandum of Understanding

On 17 November 2008 Turkey and Iran signed a Memorandum of Understanding (MoU) on natural gas production and export. The Turkish-Iranian cooperation plan, first announced in August 2007, included Turkish involvement in the development of the South Pars gas field and a proposed pipeline that would both deliver Iranian gas to Europe via Turkey, but also supply the Turkish market, i.e increase exports via the new pipeline intended to deliver gas to Europe. The MoU also refers to Turkmen gas, transiting Iran and Turkey to Europe[44].TPAO (Turkish Petroleum Corporation) intends to produce up to 16 Bcm/year of gas from South Pars, half for Turkish domestic use and half for delivery to Europe[45]. However, the Iranian Oil Minister, Gholam-Hossein Nozari, after signing the MoU in 2008 referred to some 35 Bcm/year of gas to Europe. He was also cited, saying that 50% of the gas is intended to be exported to Turkey for the Turkish market, although whether he was referring to 50% of the 35 Bcm, or additional volumes, was not clear[46]. Furthermore, different sources give different suggestions as to which pipelines are intended to transport gas from Iran to Europe. The MoU clearly says that a large part of the gas will be transported from Iran to Europe via Turkey,

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[41] Energy Tribune. *Reliable Gas? Not for Iran, Turkey, Europe.* 18/04/2008 http://www.energytribune.com/articles.cfm?aid=866
[42] See more: Tehran Times. *Oil Ministry ready to weather frost.* 12/01/2008; Energy Daily: the power of earth and beyond. *Analysis: Turkey, Iran shiver together.* 19/02/2008
[43] Today's Zaman. *Turkey may pay Iran $2 bln for unused gas as consumption plummets.* 02/09/2009. http://www.todayszaman.com/tz-web/news-185881-turkey-may-pay-iran-2-bln-for-unused-gas-as-consumption-plummets.html
[44] Middle East Economic Survey. *Turkey and Iran Sign Gas Pact.* Vol LI NO 47, 24/11/2008, Page: 19
[45] Middle East Economic Survey. *Turkey and Iran Sign Gas Pact.* Vol LI NO 47, 24/11/2008, Page: 19
[46] SHANA. *Iran, Turkey Sign Gas MoU. 18/11/2008. http://www.shana.ir/136184-en.html*

but there has been speculation as to whether Iran would choose to supply Nabucco[47] or the Trans-Adriatic Pipeline (TAP)[48], or the Persian Pipeline[49]. According to the MoU, TPAO would develop Phases 22, 23 and 24[50] of South Pars and participate in the construction of the 1,850km IGAT-9 gas trunkline from Assaluyeh to Bazargan, close to the Turkish-Iranian border. Turkey's former minister of Energy, Hilmi Guler, stated that there had been no negotiation on pricing.

The political situation in Iran is unstable for foreign investments, according to Fereidun Fesharaki. In 2007, which more or less represents the reality for foreign investments, he said: "Some foreign companies have withdrawn from participating in Iran due to US pressure. The current political situation makes foreign investments difficult, and there is a serious problem in project financing. No international bank is readily willing to back an energy project in Iran. Many projects are delayed in the upstream, and financing has to be done internally or through Chinese and Indian banks. The absence of international oil companies (IOCs) on Iran's oil and gas development scene has affected oil and gas production levels"[51]. Royal Dutch Shell, Spain's Repsol, French Sofregaz and French Total have all either postponed their involvement or withdrawn from their participation in gas fields in Iran. Shell and Repsol have both stressed that they would like to retain an interest in South Pars, but at a significantly later date. Both companies were supposed to participate in the Persian LNG project. However, they are both understood to be considering developing phases 20 or 21 instead. Both Shell and Repsol appear to have withstood the pressure from US sanctions considerably well, but there have been difficulties for the companies to negotiate contractual details of the LNG element of the project with the national Iranian oil company NIOC[52]. Total has also been facing difficulties concerning the MoU signed with NIOC to develop South Pars Phase 11. There have been ongoing negotiations over contract terms which have led to delays.

In 2009, NIOC gave Total an ultimatum to finalise a contract or else Tehran would move forward with another partner. However, Total has insisted that it was not withdrawing and

[47] See more: http://www.nabucco-pipeline.com/
[48] See more: http://www.trans-adriatic-pipeline.com/
[49] See more: http://www.energy-daily.com/reports/Iran_Starts_Building_Persian_Pipeline_999.html
[50] There are also negotiations on the possibility for TPAO developing phases 20 and 21 as reserves in that block are of higher quality.
[51] Middle East Economic Survey. *FACTS: Project Finance Problems.* Vol L No 32, 6/09 2007, Page: 17
[52] Gas Matters. *Shell andRepsol accept Iran's South Pars realities.* 2008-06. Page: 12

would proceed with its work at South Pars[53]. In 2007, Sofregaz withdrew from the Varamin Yourtshai gas storage project, but announced in September 2009 that the company was willing to return to the project at a lower cost[54].

Turkish Energy Ministry officials announced that Turkey would not seek international financing for South Pars, but would fund the project entirely from its own resources. Investment has been estimated at up to $5 billion[55] for each phase, which would mean a total investment of $15 billion for the three phases 22, 23, 24, not including pipeline costs. However negotiations are being held that would give Turkey the right to develop phases 20 and 21, where the gas is of better quality. This would imply that the total investment would be at least $ 12 billion[56], including the building of the pipeline[57]. According to the agreement, 50% of the gas from phases 23 and 24 will be sold to Turkey[58]. The upstream agreement between Iran and TPAO is based on a "buy-back" contract, whose purpose is to prevent foreign control over Iran's resources. Buy-back contracts are formulated in such a way that a foreign company develops an oil or gas resource and is repaid from sales revenues, but has no share in the project after being repaid. The National Iranian Oil Company is thereafter responsible for operation and management[59]. The Turkish parties have said that they want to set up a joint company, so as to be able to exercise influence over the cost and construction of both the pipeline as well as the transfer procedure[60].

TPAO was intended to start development work in the South Pars field in November 2009, but in October the Iranian Oil Minister Masoud Mirkazemi and the Turkish Energy and Natural Resources Minister Taner Yildiz signed a three month extension of the MoU[61]. Iran's Vice President, Mohammad Reza Rahimi has considered the establishment of a joint working

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[53] Reuters. *Total says has not left Iran gas deal.* 04/06/2009
http://www.reuters.com/article/GlobalEnergy09/idUSTRE55356W20090604

[54] SHANA. *French Sofregas to Return to Iranian Project with Lower Cost.* 29/09/2009.
http://www.shana.ir/147084-en.html

[55] Information from both NIOC and BOTAS

[56] This figure is based on TPAO developing phases 20 and 21, i.e not 22-24 as initially planned. This would imply that the total cost for the two phases would be $ 10 billion. However, including pipeline costs we believe the total investment will be significantly higher than $ 12 billion even if that figure has been reported.

[57] SHANA. Iran, Turkey Sign MoU. 18/11/2008. http://www.shana.ir/136184-en.html

[58] Ibid

[59] See more. Willem J.H van Groenendaal & Mohammad Mazraati. *A critical review of Iran's buyback contacts.* Center for Resource and Environmental Studies. Tilburg University, The Netherlands. 2005

[60] Fars News Agency. *Iran, Turkey Plan to set up Gas Company.* 26/12/2008.
http://english.farsnews.com/newstext.php?nn=8710061001

[61] Tehran Times. *Iran, Turkey ink gas MOU.* 29/10/2009
http://www.tehrantimes.com/index_View.asp?code=206684

group to study the possibilities of substituting the agreed fields in the South Pars region allocated to Turkey with fields containing better quality gas. Yildiz noted that the transfer of property rights of oil and natural gas deposits is not a matter of discussion, as set out in their constitution. All you can get is the land tenures of these fields, for temporary periods of time. We will have the right to sell, for instance, half of the gas extracted from the field. Of course additional conditions and the prices will be discussed later[62].

3.1 Difficulties with implementing the natural gas MoU between Turkey and Iran

Given the fact that the natural gas relationship between Turkey and Iran has involved many disputes and interruptions, there exists a lot of mistrust between the two parties and much caution in the implementation of the MoU. The parties do not view each other as reliable trading partners. Iran has cut off exports to Turkey several times. At the same time Turkey has not proved to be a reliable importer, since agreed take-or-pay levels have not been reached, with BOTAS complaining about the quality of the gas rather than admitting that this was due to a lack of demand.

As mentioned above, the price for the gas delivered has been the subject of ongoing disputes between the countries and it is unlikely that Turkey will agree to any new gas contract before Iran is willing to reduce the price in the existing contract. Following arbitration proceedings, in February 2009 the International Chamber of Commerce Court (ICC) ordered an immediate 18% price reduction [63]. Turkey and BOTAS decided to take the case to arbitration after Tehran rejected Turkey's call for price cuts in March 2004. BOTAS has announced that it will immediately adjust its payments to the National Iranian Gas Export Company (NIGEC) according to the ICC decision. Approval by the supreme court of each country is necessary for the decision to be put into effect. The Turkish Supreme Court will certainly approve the ICC's decision, but Iran's reaction is not known. However, given the Tehran Supreme Court's previous rulings, it is not very likely that they will accept the arbitration decision[64]. Furthermore, Turkish officials have claimed that Iran's tough buy-back condition prevents the two countries from finalising the contract, since Turkey does not feel that it has any

[62] Today's Zaman. *Turkey, Iran sign strategic deal to carry gas to Europe.* 30/10/2009. http://todayszaman.com/tz-web/news-191472-turkey-iran-sign-strategic-deal-to-carry-gas-to-europe.html
[63] Middle East Economic Survey. Botas Wins Iran Gas Price Ruling. Vol LII No 10, 09/03/2009. Page: 20
[64] Ibid

control over the price of the gas that will be developed and sold to Iran[65]. NIOC has introduced elements of production sharing agreements into the buyback contracts in an attempt to attract foreign investors, but the inclusion of fixed rates of return and capital expenditure suggest this will not be successful[66].

In addition, the means by which the 50% of the gas volume in the MoU is intended to be delivered to Europe is not yet clear. Different routes have been suggested and discussed, but so far all of them are still in the planning stage and face great difficulties that need to be resolved. Turkey clearly favours the Nabucco project, whereas Iran has declared willingness to participate in the project but is equally interested in other routes, in particular the Persian Pipeline. This pipeline would connect the South Pars field with the European market, transiting Turkey. It would transport gas through the Iran Gas Trunkline 9 (IGAT-9) through Turkey and further to Greece and Italy. In Italy, the pipeline would be split into a northern branch that will run through Switzerland, Austria and Germany, while the southern branch will supply France and Spain[67]. Another option would be for Iran to participate in the Trans-Adriatic Pipeline (TAP).

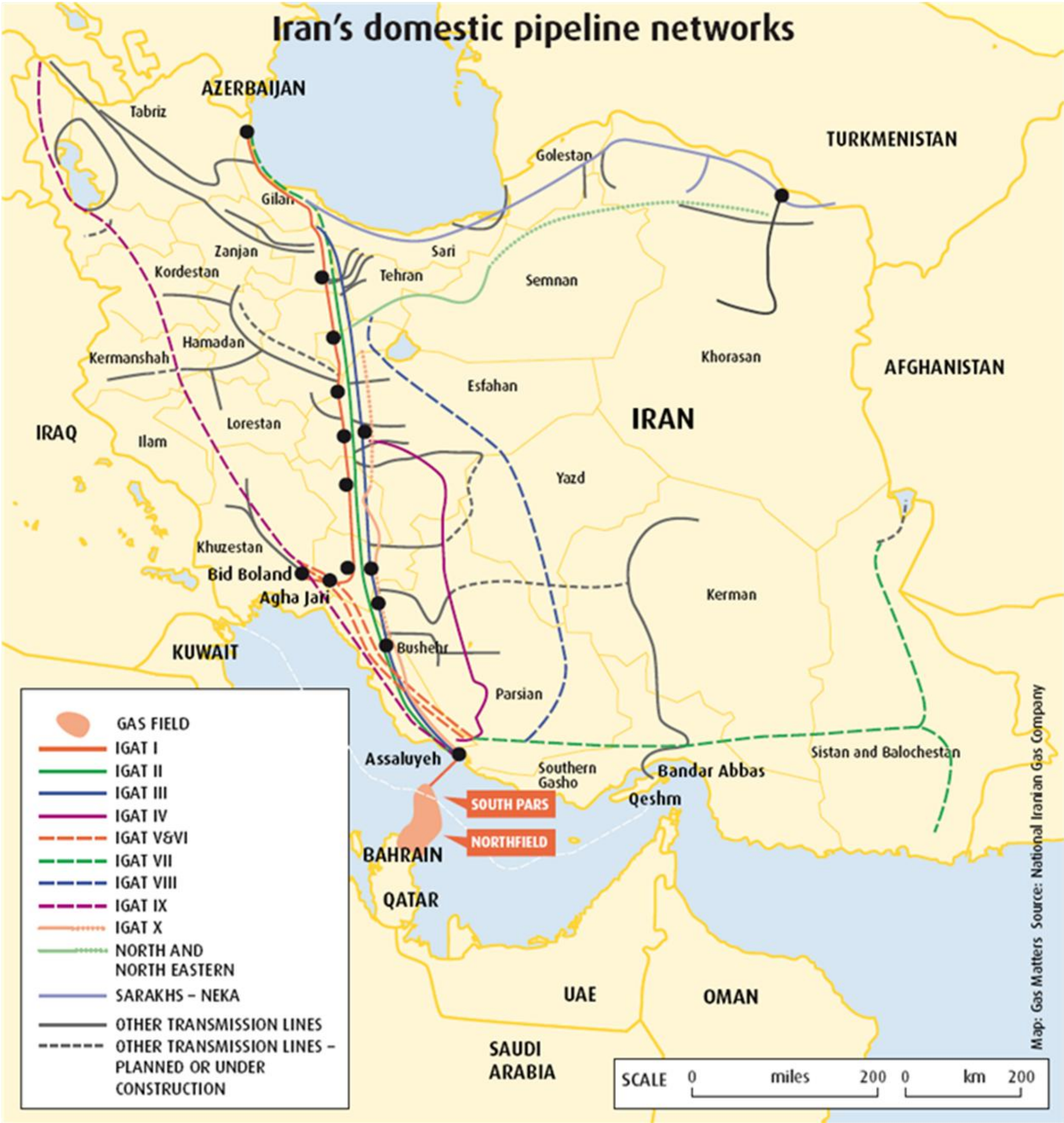
Iran is struggling to develop its gas infrastructure, which is partly due to the economic sanctions that make it difficult for foreign companies to invest. IGAT-9 is a pipeline that has been planned to transport Iranian gas both to Turkey and Europe. To be able to construct this pipeline, Iran is seeking the participation of foreign firms in its IGAT-9 scheme in a bid to secure partial funding for the project due to its very high cost, which is estimated at $8 billion due to difficult mountainous terrain[68].

[65] Milliyet. *Enerjide yeni anlaşma yok.* 15/08/2008. http://www.milliyet.com.tr/Siyaset/HaberDetay.aspx?aType=HaberDetay&Kategori=siyaset&ArticleID=978743&Date=15.08.2008&b=Enerjide%20yeni%20anla%C5%9Fma%20yok

[66] Gas Matters. *Iran's domestic gas drive may only bring short-term relief. 04/*2009. Page: 20

[67] Fars News Agency. *Iran Plans to Build Pipelines to Export Gas to Europe.* 20/07/2008. http://english.farsnews.com/newstext.php?nn=8704301242

[68] Iran Oil Gas. *Iran seeks foreign fund for IGAT 9.* 29/09/2008. http://www.iranoilgas.com/news/details2/?type=news&p=archive&newsID=2750&restrict=no ; EIA. *Country profile Iran.* 2009. Page: 9. http://www.eia.doe.gov/emeu/cabs/Iran/pdf.pdf



Note: IGAT IV – the existing natural gas pipeline between Iran and Turkey. IGAT IX - the proposed pipeline carrying gas to both Turkey and Europe.

Source: *Gas Matters*, April 2009, p.19.

Furthermore, there have been speculations about whether or not president Ahmadinejad's past attempts to appoint political allies to senior energy positions have had a greater impact on the slowdown than the sanctions[69]. In September 2009 Matthew Bryza, the former US

[69] Gas Matters. *Iran's domestic gas drive may only bring short-term relief.* 04/2009.

deputy assistant secretary of state noted that Iran was incapable of covering its own domestic demand due to lack of infrastructure[70]. In an interview with the Hurriyet Daily News & Economic Review the Iranian Ambassador in Turkey, Bahman Hosseinpour, responded to Bryza's remarks by saying that new projects were under way and would be disclosed soon. He continued by saying: "Bryza's remarks are not in line with those coming from Europe. Iran has already kicked off several projects to cover the demands of its European customers. Some of them will be made public in the near future"[71]. But even if Iran holds the world's second largest gas reserves, it still imports gas from Turkmenistan to be able to supply its domestic demand. Iran's gas exports, almost all of which are exported to Turkey, were approximately 6.0 Bcm, while its imports were 7.3 Bcm in 2007[72]. This is due to the extremely low price of gas in Iran and the highly inefficient use of it in industry and profligate use on the part of private consumers, leading to very high domestic consumption rates[73]. Hence, the country needs to rationalise its domestic gas use in order to free gas for export. Furthermore, most of the phases in the South Pars field are intended for domestic demand and for reinjection into maturing oil fields. Phases 6-8 are for reinjection and phases 9-10 and 15-16 are for the domestic gas market. In 2009, the phases intended to supply the international market in the form of LNG and pipeline gas were not regarded as a priority[74].

Turkey has long term import contracts with Russia, Iran, Azerbaijan, Algeria, and Nigeria and (as mentioned above) there is an agreement between Turkey and Turkmenistan that has not been implemented, for the import of 30 Bcm/year. The annual quantity (ACQ) in the – three contracts with Russia is 30 Bcm; the ACQ with Iran is 10 Bcm, Algeria 4 Bcm, Nigeria 1.2 Bcm and Azerbaijan 6.6 Bcm.

Since Turkey lacks domestic energy resources, and demand for natural gas has increased significantly during the 2000s, there have been constant expectations of an increase in, accompanied by further diversification of, Turkey's imports. But current projections (Table on page 20) show that contracted gas is quite sufficient to meet domestic demand.[75] Even

[70] Hurriyet Daily News and Economic Review. *Iran urges Turkey to set up four-way mechanism.* 08/09/2009. http://www.hurriyetdailynews.com/n.php?n=iran-urges-turkey-to-set-up-quadripartite-mechanism-2009-09-08
[71] Ibid.
[72] Gas Matters. *Iran's domestic gas drive may only bring short-term relief. 04/*2009.
[73] Arabian Business. *Iran to hike domestic gas prices.* 25/05/2008. http://www.arabianbusiness.com/index.php?option=com_content&view=article&id=520122&Itemid=1
[74] Middle East Business Intelligence. *Tehran struggles to increase output.* 03/2009. *http://www.meed.com/supplements/tehran-struggles-to-increase-output/2021570.article*
[75] See table on page 20.

without the recession, there would have been an oversupply of gas until 2015 and taking into account the negative effects of the recession on gas demand, there seems no urgent need for additional gas before 2018. In fact the Table suggests that Turkey is currently oversupplied and this is the reason for the take or pay problems in the contract with Iran described above. However, given the expected increase of Turkish gas demand post-2018, this may be a temporary problem. But until it is resolved, take-or-pay levels may be a source of conflict with all suppliers to Turkey. This may cause additional problems for cooperation with Iran, potentially damaging prospects for a future gas contract.

Turkish gas demand and contracted gas imports.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Demand: BAU (Business as Usual)	**34.62**	**35.93**	**37.33**	**39.20**	**41.14**	**43.32**	**45.16**	**47.13**	**49.39**	**51.64**	**54.05**	**56.63**
Demand: Recession 1	**31.16**	**31.16**	**31.16**	**31.16**	**32.34**	**33.60**	**35.28**	**37.03**	**38.99**	**40.65**	**42.42**	**44.45**
Production	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Pipeline	81.80	81.80	81.80	81.80	81.80	81.80	81.80	81.80	81.80	81.80	81.80	81.80
Nabucco	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
LNG (existing & construction)	11.96	11.96	11.96	11.96	11.96	11.96	11.96	11.96	11.96	11.96	11.96	11.96
Possible supply 'capacity'	**93.76**	**93.76**	**93.76**	**93.76**	**93.76**	**93.76**	**93.76**	**93.76**	**93.76**	**93.76**	**93.76**	**93.76**
Contracted gas imports	**51.70**	**51.70**	**51.70**	**51.70**	**45.70**	**45.70**	**41.78**	**41.78**	**41.78**	**41.78**	**41.78**	**41.78**

Source: *Anouk Honore European Gas Demand, supply and pricing: cycles, seasons and the impact of LNG price arbitrage*.OIES/OUP: forthcoming,2010.

A pattern can be discerned by looking at the gas cooperation between the two countries. In principle, both countries want to develop large-scale natural gas cooperation, but are unwilling to compromise on the terms of commercial contracts. They continue to pursue a new MoU, but at the same time engage in arbitration proceedings in relation to the existing contract. It can therefore be argued that for both countries, the main rationale for the natural gas relationship is not commercial but rather political. Recent developments in the gas relationship illustrate this conclusion. On 24 October 2009, Iran was planning further arbitration proceedings against Turkey at the International Chamber of Commerce (ICC)

Commission in relation to the take-or-pay clause in the gas contract[76]. A few days later on 30 October 2009 (as mentioned above) a large Turkish delegation, including the Turkish Energy and Natural Resources Minister Taner Yildiz and the Turkish Prime Minister Recep Tayyip Erdogan visited Tehran, and both sides agreed to extend the MoU by three months. These two events appear to contradict each other, with a hostile commercial act followed by a further extension of cooperation. This can best be explained by viewing the threat to take Turkey to arbitration as a purely commercial act, whereas signing and extending the MoU was a political act, i.e the two countries find it easier to agree on political energy issues but not on commercial details necessary to move the gas MoU forward.

The much debated nuclear power program in Iran creates another obstacle for the future gas relationship between Iran and Turkey. However, Turkey has adapted a rather soft stance on the issue, which will be discussed in the next section. According to the Iranian Sanction Act, it is difficult for any country and/or company to develop economic ties with Iran, including Turkey.

3.2 Natural gas cooperation with Iran – a priority for Turkey

Even though developing the gas relationship between Turkey and Iran faces many obstacles, Turkey seems very keen to pursue and finalise this contract. This can to a large extent be explained by the new Turkish foreign policy described earlier i.e. zero-problem policy towards its neighbours and its desire to develop stronger relations with them. However, it is also due to Turkish economic interests in Iran. Economic cooperation is not confined to gas; for example, a Turkish state-owned fertilizer company has bought Iran's biggest fertilizer production complex, Razi Petrochemical Company, for US $681million from Iran's privatisation administration. Furthermore, there has been discussion between Turkish and Iranian officials on opening Turkish banks in Iran[77]. In 2008, Turkish trade with Iran amounted to some $10 billion compared with only $1 billion in 2000[78]. Furthermore, the announcement of the MoU came at a time when the US Administration was seeking to

[76] Press TV. *Iran plans to file 'gas complaint' against Turkey.*24/10/2009. http://www.presstv.ir/detail.aspx?id=109487&sectionid=351020103

[77] Daphne McCurdy. *Turkish-Iranian Relations When opposites attract.* Turkish Policy Quarterly. 2008. Page: 91-92

[78] Zaman. *Turkey should try mediate with Iran despite limited room for manoeuvre.* 30/09/2009. http://www.todayszaman.com/tz-web/news-188429-turkey-should-try-to-mediate-with-iran-despite-limited-room-for-maneuver.html

increase Iran's international isolation by tougher sanctions[79]. In assessing gas cooperation between Iran and Turkey, it is obvious that Turkey, both in relation to the MoU and the 1996 gas contract, prioritised cooperation with Iran over its historically strong loyalty to the US. The rhetoric used by the Prime Minister Tayyip Erdogan, the President Abdullah Gul and the Foreign Minister Ahmet Davutoglu in response to Iran's controversial nuclear program is remarkable. The Turkish response to the fact that Iran might enrich uranium to produce nuclear fuel has been very vague. Erdogan (Sep 25, 2009) commented that the planned US sanctions: "won't bring about anything good for the people [of Iran]. So I think we have to be careful". When he was asked if Turkey would support new UN Security Council action against Iran, he said: "Without seeing what would be in the resolution, it's difficult to say. We would look at the text and we would make our contribution and then we would make a decision". He continued by referring to the Nabucco project and commented that sanctioning Iranian natural gas would mean that "Nabucco will come to a dead end... when it comes to natural gas, it's of crucial importance to our country... our exports are quite significant... we have to take into consideration our national interest before taking certain decisions"[80]. Erdogan has also repeatedly stressed that Turkey is completely against nuclear weapons in the Middle East and even indirectly defended Iran by referring to Israel: "Israel is not a member of the IAEA, while Iran is. Moreover, phosphorus bombs were used in Gaza. What is this? A weapon of mass destruction", referring to the offensive the Israel army launched against Gaza in December 2008. He continued by saying "These issues are never brought to the table, and this personally annoys me as a person who is in an office [that carries with it] responsibility... That is to say, we need to be fairer. We have to act honestly if we want global peace"[81].

Turkish officials and scholars interviewed by the author confirmed that the gas contract with Iran is something Turkey is keen on pursuing and finalising. However, they also expressed the importance of US influence over the Turkish energy policy, which for the moment hinders Turkey from finalising the contract.

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[79] The Jamestown Foundation. *Turkey Determined to press Ahead with Iranian Gas Deal.* 5/10/2007. http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=33059

[80] Reuters. *Turkey PM to visit Iran, urges caution on sanctions.* 26/09/2009. http://uk.reuters.com/article/idUKTRE58P1KC20090926

[81] Zaman. *Turkey should try mediate with Iran despite limited room for manoeuvre.* 30/09/2009. http://www.todayszaman.com/tz-web/news-188429-turkey-should-try-to-mediate-with-iran-despite-limited-room-for-maneuver.html

To summarise, it is notable that while most European and North American companies have withdrawn from the Iranian market, and specifically the energy market, Turkey seems to have strengthened its ties with Iran both in the energy sector and trade in general. In contrast to the Asian and Russian companies, which are beginning to establish themselves on the Iranian market, Turkey is a NATO member and historically a close ally to the USA and Europe. Furthermore, the diplomatic ties between the two countries are increasing and Turkey has even in some respects defended Iran and argued that instead of trying to exclude Iran from the international community, efforts must aim to include Iran. Nevertheless, it remains difficult to picture Turkey finalising the gas contract with Iran without US approval. The absence of such approval would significantly harm the US-Turkish relationship, which Turkey will be reluctant to risk.

4. Conclusions and future prospects for a natural gas relationship between Turkey and Iran

This paper has presented the main features and factors influencing Turkish-Iranian natural gas relations and their current outcomes. This was done by first examining the historical evolution of Turkish-Iranian relations, the preconditions for today's gas contract, and a detailed presentation and discussion of Turkey's and Iran's natural gas cooperation over the past decade. The main conclusion reached in this paper is that there exists a clear distinction, in terms of success, between the Turkish-Iranian political relational and the commercial natural gas relationship. The political relationship is strengthening and diplomatic ties are growing stronger. Even Turkish-Iranian trade in commodities other than gas is growing rapidly, but the gas cooperation continues to be delayed and to face problems. However, both countries portray their gas cooperation as developing and growing, and of high priority. The logic behind both Turkey's but also Iran's desire to expand this cooperation can be found within the framework of the countries´ foreign policy.

Natural gas cooperation between Iran and Turkey has, as described in this paper, been far from successful. The contract has run into huge problems, with disputes over both deliveries and prices. Both sides find it hard to compromise on either of these issues and, as a result, the finalization of the gas MoU continues to be delayed. Almost every year since the start of deliveries in 2001, a disruption has occurred, either because of insufficient Iranian supplies, or insufficient Turkish demand. Both countries have given different explanations for the fact that deliveries have never reached the volume stipulated in the contract. However, this paper concludes that the most common causes have been: Iran's lack of gas during the winter period; Turkey's lack of demand (or oversupply from its other sources), but also problems with securing the pipelines from terrorist attacks. In other words, Iran has not been a reliable exporter and Turkey has not been a reliable importer. Turkey has taken Iran to arbitration over a price dispute; and Iran has threatened to take Turkey to arbitration due to failure to reach take-or-pay levels. These are very hostile acts in gas trade between any two countries. The intriguing question that this leaves us with is why both countries want to develop and expand the natural gas cooperation, given the relatively unsuccessful history and the lack of mutual trust?

This paper has shown that the desire between the two countries to develop their gas trade is part of a political game being played by both countries, The conclusion is that gas trade per se is not currently high priority. Rather, the priority is the political relationship between the countries. For Iran, Turkey offers the best way out of political, but also economic isolation and to develop gas cooperation with future possibilities to reach the European market which would raise Iran's strategic importance. Realisation of such gas cooperation would ultimately improve Iran's position as a global player. The logic behind Turkey's eagerness to sign and extend natural gas MoUs with Iran, can be explained by the country's new foreign policy which aims at Iran becoming a strong ally of Turkey and a good neighbour. If the AKP government in Turkey manages to introduce Iran to the international arena and facilitate negotiations between principally the US and Iran, but also between Europe and Iran, the government will have definitely proved that its foreign policy and the principles behind it are realistic and achievable. This would further suggest that Turkey can play a role as a leading power and can play a central role in international politics. These goals explain Turkey's policy towards Iran and, by extension, the logic behind Turkey's prioritisation of natural gas cooperation.

A ten year future perspective on bilateral gas trade between Iran and Turkey provides a very pessimistic picture. With a background of huge problems in relation to both deliveries and prices, there is no reason to believe that disagreements on a future contract and the planned project will be rapidly resolved. The gas relationship could even deteriorate during 2010-11 due to lack of demand in Turkey following recession, which will represent yet another obstacle to future gas cooperation. Even if a future gas MoU between Iran and Turkey is signed, reduced demand in Turkey will have indirect effects on the gas relationship as a whole. In the short term, it is difficult to believe that Turkey will be able to import the volume of gas that is stipulated in the existing contract. Turkey does not seem willing to compromise on prices while striving for more influence over projects in which it looks to invest. No major changes seem imminent in the terms being offered by Iran in relation to buy-back agreements.

The next Turkish general elections will be held in 2011, which will constitute another crucial point in the future gas cooperation between Turkey and Iran. As has been discussed above, current Turkish foreign policy differs very much from previous traditions. With a new party in office the relations between Turkey and Iran could very well change with obvious implications for gas cooperation. In late 2009, survey results suggested declining support for the AKP government[82]. A different parliamentary constellation after the 2011 general elections, in terms of a coalition or a single party government (and in that case not the AKP), would most likely see a change in foreign policy. This policy change would most likely also concern Iran, since it represents one of the most controversial aspects of Turkish foreign and economic policy. Much also depends on European and US policy towards Iran since, in particular the main opposition party CHP would try to follow a similar policy to that of those countries.

In the case of Iran, Mahmoud Ahmadinejad was elected president for four years on 12 June 2009[83]. This was a significant setback for the finalisation of the gas contract as well as the Turkish-Iranian relationship, both from a commercial as well as from a political point of view. There exist two energy export policies within Iran; the conservatives (Ahmadinejad's administration) want to focus on oil exports and use the natural gas for the domestic market and reinjection in oil fields, while the more liberal forces want a greater focus on natural gas exports with a desire to reach the European market and become a global player.

To summarise, during the 2000s, Turkish-Iranian gas cooperation has been seriously problematic commercially, with both countries proving unreliable trading partners. However

[82] Hürriyet Daily News & Economic Review. *AKP votes in decline, survey says.* 2/11/2009. http://www.hurriyetdailynews.com/n.php?n=akp-votes-in-decline-survey-says-2009-11-02

[83] Since the much debated general election in Iran, protests and demonstrations against the administration have been huge. Many hope for a re-election and a new government. If this becomes a reality we might very well see a changed and improved Turkish-Iranian relationship, both in terms of politics, but also in the commercial gas relationship.

successful overall political and economical relationships point towards an expansion of gas cooperation and could, in the longer term, provide solid ground for such a development. Nevertheless, current commercial disagreements are serious and suggest that it is not very likely that we shall see successful development in gas trade between Iran and Turkey over the next five, and possibly the next ten, years. The 2008 MoU between the countries may very well be finalised within the next year, but delays and disputes in relation to joint South Pars development and deliveries will certainly follow. This examination of the bilateral natural gas relationship between Turkey and Iran leads to pessimistic conclusions about the role which Iran could play as a supplier to Europe via the "fourth corridor" over the next decade. If bilateral gas cooperation between Turkey and Iran had been more successful over the past decade, and if the supply situation in Iran and the demand outlook in Turkey were both more positive, this would have at least confirmed the commercial logic of large scale gas flows via the fourth corridor from the country with the world´s second largest natural gas reserves. The current outlook suggests that, independent of the political relationship between Iran and Turkey, and Iran and the rest of the world, the gas export outlook – at least as far as pipeline gas to Europe is concerned – is unpromising.

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