



Iran Sanctions are lifted: What will be the effect in Turkey?

On 16 January 2016, under the Joint Comprehensive Plan of Action ("JCPOA"), the United States and the European Union lifted several key sanctions against Iran, following confirmation by the International Atomic Energy Agency of Iran's compliance with nuclear-related commitments. In July 2015, the P5+1 countries — comprised of Germany and the five permanent members of the United Nations Security Council (the United States, the United Kingdom, France, Russia and China) — reached an agreement with Iran on its nuclear program, whereby Iran agreed to reduce its nuclear infrastructure under the JCPOA.

With the lifting of sanctions, Iran will re-emerge onto the global market as holder of the world's second-largest oil and natural gas reserves, and Iran's foreign assets worth USD 100-150 billion will be unfrozen for the first time in over three decades. Global companies that have been barred from doing business with Iran will now be able to access a market rich in investment opportunities. This could revive Iran's economy, which will likely have considerable impacts on both the country and the region.

The lifting of sanctions will have a significant effect on Turkey's economy as well, because of its shared borders with Iran. Geographically, Turkey is the closest country to Iran, and despite the sanctions, has had an ongoing commercial relationship with the nation. Many Turkish construction companies have investments in Iran, while throughout 2015, Iranian investors incorporated 240 new firms with the Istanbul Trade Registry. With sanctions now lifted, these investments are expected to continue at an increasing rate.

However, over the years, the sanctions have inevitably restricted Turkey's exports to Iran, resulting in a decrease in trade volume. According to data from the Foreign Economic Relations Board, the trade volume between Turkey and Iran was approximately USD 13.7 billion in 2014, whereas two years earlier, it had reached roughly USD 22 billion. After the lifting of sanctions, the trade volume is estimated to climb as high as USD 30 billion in the coming years.

As one of the first countries to have signed a bilateral trade agreement with Iran, Turkey is ahead of its export competitors. On 1 January 2015, the Preferential Trade Agreement between Turkey and Iran came into force, with aims to achieve a trade volume of about USD 35 million by the end of 2016. The Preferential Trade Agreement provides for a decrease in custom duties, which may result in an expansion of Turkish exports in the automotive, food, chemical and petrochemical industries.

Turkey's geographical proximity to Iran will ease the country's access to Iran's energy resources. Despite sanctions and more financially favorable alternatives provided by other countries, Turkey has been importing approximately 10 billion cubic meters of gas from Iran per year, making Iran the second-largest gas supplier of Turkey after Russia. Considering the

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political crisis between Turkey and Russia, Iran may now become a good alternative for fulfilling Turkey's natural gas needs. In addition, Turkey's geographical position could result in the creation of a key transit route for Iran, to deliver its energy resources to Europe. Iran may also consider joining the Trans Anatolian Natural Gas Pipeline (TANAP).¹ Although Iran has the second-largest natural gas reserves in the world, it can only process a portion of these reserves on its own. Joining TANAP would definitely increase Iran's production capacity.

As a result of sanctions imposed over the past years, the Iranian market has been isolated and alienated from global players. It is now going to be open to investments in various sectors, ranging from banking to transportation. Turkey is seeking opportunities in its tourism, banking, textiles and telecommunications sectors, as well as in petrochemicals, automotive, transportation and construction.

With a need for overall development in nearly every market, Iran's demand for facility and infrastructure construction is likely to be significant. In fact, the Turkish Contractors Association recently announced that they have already begun taking steps towards the construction of oil refineries in Iran. Furthermore, with its vast number of retail chains, Turkey is also a strategic role model for Iran in the retail sector, which may lead to investment opportunities in Iran. Regardless of sanctions, Iran has always been an important country for Turkey's tourism sector. With more than 1.5 million Iranian tourists visiting Turkey in 2015, Iran ranks sixth among the countries generating the most tourists.

Ongoing Turkey-Iran relations are expected to gain significant momentum in the near future. While Iran may emerge as a strong competitor to Turkey in the long-run with its natural resources and investment potential, cooperation between the two countries may trigger a rapid rise in economic benefits and strengthen their alliance. With sanctions now lifted, Turkey's geopolitical and cultural proximity to Iran may lead the country to serve as a hub for foreign investors seeking to access the Middle Eastern market.

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¹ <http://www.hurriyetdailynews.com/iran-and-others-may-have-stake-in-tanap-turkish-energy-minister.aspx?pageID=238&nID=80820&NewsCatID=348>