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N CENTRAL ASIA

PRIVATE SECTOR PARTICIPATION IN INFRASTRUCTURE
IN CENTRAL ASIA: NATIONAL AND REGIONAL SOLUTIONS

"STATUS OF CENTRAL ASIAN ENERGY, THE POSITION
OF TURKEY"

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Distinguished Participants,

I would like to express my pleasure to be with you, at this Asian Development Bank Annual Meeting Seminar on Central Asia.

Energy, the most important factor of economic and social development, has a strategic role and will continue to keep this role in the global economy. When you talk about oil and gas, the very first fact that comes to mind is the strategic importance of the Caspian Region and the Middle East with all their enormous hydrocarbon reserves. Taking into account the level of energy dependence throughout the World, no one could deny the very promising future of this broad region.

When we look to the energy consumption figures, at present, the European Union is one of the largest energy-consuming regions in the world and by far the largest energy importer with a steady annual growth of 1% on average since 1990 extending well into the 2000's. According to the studies carried out by the European Union itself, over the next two decades, nearly 45% increase in total energy demand is expected in Europe, while natural gas will increase its share in primary energy supply up to around 27% by 2010. According to the projections of some international organizations, the existing import dependence of the existing European Union countries will rise from 42 % today to nearly 70 % in the year 2020, bringing the need of new supply sources together.

In this context, to transfer the rich oil and natural gas resources of East to the demanding countries of West, strategic cooperation among the countries of the region and other beneficiaries are needed. Among these countries, Turkey has a special mission as a country located between the enormous gas reserves of the Middle East and Central Asia and the gas markets of Europe. So, while developing projects to meet her own energy demand, Turkey also desires to serve as the most feasible route on the way to the European and World Markets within the concept of East-West Energy Corridor. So, due to the increasing importance as an investor and transporter country and becoming commercially a key player in the region, Turkey pursues the strategy of;

- increasing its role in the oil and gas sector of the region,
- strengthening the economic cooperation among the region countries,
- providing a safe route for the transmission of the oil and gas resources to the western markets.

The Baku-Tbilisi-Ceyhan Crude Oil Pipeline and Baku-Tbilisi-Erzurum Natural Gas Pipeline Projects are developed in this context and they form the basic pillars of this strategy.

The Baku-Tbilisi-Ceyhan Crude Oil Pipeline Project that is well under way as it is scheduled and will be in operation in the coming few months. This project is of special importance in terms of evidencing the IFI's (International Financing Institutions) interest in one of the most striking projects developed in the Region so far. Approximately 70 per cent of the total cost of the 3 billion USD worth project has been financed by the IFI's (EBRD and IFC), Ex-Im Banks and some private banks. The remaining 30 per cent is being made available by the eleven project investors comprised of international oil and gas companies. It will be our second leg after the Iraqi-Turkish Pipeline as a crude oil corridor between the East and the West. On the other hand, official Kazakh participation to the BTC Project will be an important achievement in terms of commercial and strategic views; albeit companies operating in Kazakhstan have already been participated in the project.

The Baku-Tbilisi-Erzurum Natural Gas Pipeline Project or so called as South Caucasus Pipeline (SCP) Project on the other hand, will rank first among the Eurasian gas transmission projects that will connect the Central Asian natural gas resources to Turkey's natural gas network. According to the Sales and Purchase Agreement of the Project, Turkey will receive the gas at the Georgian border. The project was sanctioned on February 27th 2003 by the several investor international oil and gas pipeline companies and destined to be operational in the last quarter of 2006. EBRD finances SOCAR's (Azeri Oil Company) share in the project.

Within the scope of the strategy of being an energy bridge between the east and the west, the projects proceed by stages. Turkish-Greek gas purchase and sale agreement was concluded in December 2003 and construction is scheduled to begin this year. It is expected that first gas flow to Greece through this pipeline will start in 2006.

The so called Nabucco Project linking Turkey to Bulgaria, Romania, Hungary and Austria is also moving ahead. Technical and economic feasibilities of the project have been completed and the works for consequent stages area being implemented. The "Nabucco Pipeline Study Company GmbH" has been established in the year 2004 to develop models for the project financing, market surveying, and all other coordination activities.

When it is taken into consideration that the gas supply deficit of the European countries will approximately reach to a level of 300 billion cubic meters, in long term it is rational to envisage the realization of transmission capacities of 100 billion cubic meters, well beyond the proposed maximum capacities (40 billion cubic meters) of the Nabucco and Turkish-Greek pipeline projects.

Dear Guests,

As being fully aware of the crucial importance of the Caspian Region's hydrocarbon resources, Turkey has developed sound business relationship with the countries of the Region.

Besides the extensive exploration activities in Turkey, our national oil company, Turkish Petroleum Cooperation (TPAO) has participated in 4 big projects in Azerbaijan sector of Caspian Sea. The Azeri-Chiragli-Guneshli Project where TPAO is involved with 6.75 % share is one of the biggest projects by its investment, reserves, development plan and strategic importance amongst the oil and gas projects in the world. The other two projects in the same sector are Shah Deniz (9%

share) and Alov (10% share). Apart from these, TPAO continues its exploration activities in Libya and Algeria and keep its close attention in the exploration and development fields in Turkmenistan, Syria, Iraq, Egypt and Russia.

Dear participants,

The other dimension of energy cooperation in the region is electricity projects. Turkey has actively participated in various projects in the region due to the given importance to interconnect the electricity systems at regional basis and to develop energy trade in the region.

The Project of "Interconnection of Electricity Systems of the Countries of Economic Cooperation Organization" is being implemented together with the Central Asian Countries. The feasibility study of the Project has been started by the approval of the Economic Cooperation Organization (ECO) Permanent Representatives Council's meeting of March, 2005.

The other project, which we realize together with Azerbaijan, is the "Black Sea Economic Cooperation (BSEC) Regional Transmission Planning Project" which aims to evaluate the energy trade probabilities in the region and to interconnect the electricity systems of the BSEC countries.

Both of the projects comprise of the studies towards the interconnection of electricity systems of ECO and BSEC countries and search for the energy commerce possibilities between the region countries. According to the results of these studies, first in the Central Asian Countries then in the other countries of the region, construction of new facilities and expansion of existing ones could be evaluated. This will give opportunity to private sector companies' participation to these projects.

As an example of cooperation among the region countries, at present we receive energy from Turkmenistan via the Iran electricity system for which a 400 kV energy transmission line is established between Turkey and Iran.

Consequently, as the transmission projects that are developed jointly by the companies in the region moves forward and as we perform the transmission activities; we surely apply the best conditions not only for ourselves but also for the producing countries and the others on the route.

What we would like to see from the authorities of both producing and destination countries are cooperation and mutual understanding among the related parties. Needless to say this constructive approach will lead stability in the region.

The supplier countries and the producer companies in the region have to provide reasonable conditions to open the gate. This is also the case for the transit countries to form the best grounds for the mission, both technically and economically. And at last, the demanding countries together with their organizations have to support these projects taking into consideration the cost of supply diversification for the moment, in order to benefit the more secure, economical and liberalized market conditions in the future.

As Turkey, today, what we are targeting is to be the most suitable gate to those who have not found any access yet to reach the available markets for their own resources.

Thank you for your attention.