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Letter From the Editor

Dear readers,

If you are reading this paragraph that means, the new Energy review issue is on the screens of your monitors. Once again, we are pleased to be with you a week later, with the belief that the main reason for a separation that is a cause for the new meetings, meetings with you, our dear readers.

In this, you are able to read article of Metin Gezen, in which he outlines possible scenarios effects on the price of energy in the case of a possible military operation against Iran. The author attempts to explain the situation from the point of view of Russia, the United States and Iran.

Haluk Direskeneli continues with a series of articles related to energy facilities in Turkey. This week, the author provides information about Yenikoy Thermal Power Plant.

Rovshan Ibrahimov analyzes pipeline capacity to export oil from Russia in a westerly direction, identifying the pros and cons of each direction.

An interesting perspective of point of view has touched on this week Serkan Bahceci with attempting to describe reasons why Turkey should not join to the Kyoto Protocol.

Mehmet Seyfettin Erol writes on the prospects for the development of foreign policy of Turkmenistan in the energy sector during new government period.

Hasan Ozertem traditionally evaluates price changes in the oil market during this week.

Rovshan Ibrahimov ,
Editor of USAK Energy Review

Turkey should not ratify Kyoto Protocol

Dr. Serkan Bahceci,
Consultant and Senior
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It is a catchy title. And as all catchy titles it requires some explanation. To begin with, there is now a well-established consensus in scientific community that global warming is caused by human activity, as recently announced by a United Nations (UN) climate panel. Scientists and government officials in the Intergovernmental Panel on Climate Change (IPCC),[1] the most authoritative group on global warming, agreed it was with more than 90 percent probability that human activities were the main cause of global warming in the past 50 years. The panel's report[2] predicts droughts, heat waves, and rising sea levels at catastrophic levels, if the trend continues.

In order to reverse or at least slow down the trend, the well-known Kyoto Protocol was signed in 1997 under the United Nations Framework Convention on Climate Change. Countries that ratify it commit to reduce their emissions of carbon dioxide and five other greenhouse gases by around 5% below their 1990 levels (for many countries, such as the EU member states, US and Canada, this corresponds to some 15% below their expected green-house gas (GHG) emissions in 2008). The Protocol includes "flexible mechanisms" which allow developed economies (referred to as "Annex 1 economies") to meet their GHG targets by purchasing GHG emission reductions from elsewhere. These can be bought either from financial exchanges (such as the new EU Emissions Trading Scheme[3] or Chicago Climate Exchange in North America) or from projects which reduce emissions in non-Annex 1 economies. Although the GHG emission caps are national-level commitments, in practice most countries will devolve their emissions targets to individual industrial entities, such as power generation plants. This means that the ultimate buyers of Credits are often individual companies that expect their emissions to exceed their quota. Typically, they will purchase Credits directly from another party with excess allowances. The renewable resources especially in Annex 1 economies, consequently, are able to earn additional revenues by selling their allowances in the newly established regional or national markets.

Simple inspection of the map with a critical eye catches the point: (1) Turkey has a huge potential in renewable energy resources. The high altitude of the land and plentiful water resources - big and small - create many run-of-the-river opportunities in hydroelectric production. The same can easily be claimed about wind farms. (2) Turkey is geographically and politically close to EU, which makes bulk of the Annex 1 economies and quite serious about the Kyoto Protocol. Adding the two observations together, a simple conclusion is that, ratifying the Kyoto Protocol and joining EU's Emissions Trading Scheme would create a huge income stream for the renewable energy resources in Turkey.

The discussion so far begs the question: How can one be against the ratification of the Kyoto Protocol then? If global warming with its catastrophic results is at our door, isn't it every country's –not just the rich ones – responsibility to do as much as possible, for which the first step seems to be the ratification of the Protocol? Moreover, by ratifying the Protocol and starting trading the emissions allowances, aren't the Turkish renewable resources for which the potential is huge, going to receive a lot of revenues?

First, it is a tautology to say that everyone must do his/her part in the effort to reduce GHG emissions. What that "part" should be is a different question

though. Speaking only of power generation sector, it is straightforward to see that Turkey cannot afford to lower GHG emissions in the short run. Due to insufficient investments in capacity, the supply-demand balance is already under huge pressure with possible rolling blackouts at the door steps. Unfortunately, no facility can be spared at this point, or in the near future.

The argument in favor of the GHG emissions trade, purchasing allowances for thermal units and covering those costs by the credits from renewable resources, also does not add up: Electricity generation in Turkey is mostly carried out by thermal (coal and natural gas) resources, which will be buying GHG emissions credits. Power generation from renewable resources (mostly hydro), make 20 to 40% of production in any given hour.[4] In addition, wind and other renewable technologies are still not economical on their own, and require additional incentives. Lignite, which is an exceedingly pollutant type of coal, on the other hand, is relatively abundant in Turkey and makes an important portion of generation.[5] Most of lignite facilities that emit a significant portion of GHG gasses are state-owned. Most importantly, the lack of an independent market mechanism in Turkish electricity sector will not let the incentives, if any, to be communicated efficiently to potential investors.

Regrettably, the cost-benefit analysis of ratification might not be in favor of Turkey in the short run. The title of the article, perhaps should read "Turkey cannot afford to ratify Kyoto Protocol at this time". This conclusion, needless to say, does not mean that the country should continue business as usual. The renewables potential must be utilized as soon as possible, minimizing the dependence on thermal resources. The children of this country, generation after generation, were raised listening to the enormous "potential" of the country in many dimensions. Isn't it time to start using that potential in at least electricity production?

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References

1. IPCC has been established by two UN organizations the World Meteorological Organization (WMO) and the United Nations Environment Programme (UNEP), to assess scientific, technical and socio- economic information relevant for the understanding of climate change, its potential impacts and options for adaptation and mitigation.
2. Available at <http://www.ipcc.ch/>. Also see "Turkey needs to consider Energy Policies after the IPCC Report" and "Understanding the Climate Change and the IPCC Report", respectively at Issues 5 and 6 of Energy Review.
3. For more information, see <http://ec.europa.eu/environment/climat/emission.htm>.
4. Sources: <http://www.euas.gov.tr/> and <http://www.epdk.gov.tr/>.
5. I personally hope to read another piece by Mr. Haluk Direskeneli, as a follow up on his well-written article "Afşin-Elbistan: A Critical Look to the Turkish Energy Sector" (at Issue 6 of this Energy Review); this time explaining the current and expected environmental attributes and conditions of such lignite burning and state-owned facilities.

A Rehabilitation Story- Yenikoy Thermal Power Plant



Haluk Direskeneli,
Energy Analyst

Today, I would like to share my past experience in Yenikoy thermal power plant . I will try to avoid technical jargon, or at least try to minimise it while telling the story. On 19th December 1994, upon invitation of the power plant management, together with Mr. Barney Baker from Babcock & Wilcox Ohio, USA, we visited the site.

There are three power plants close to each other, at the same SouthWest corner of Turkey, where Yatagan is designed to generate 3x210 Mwe, Yenikoy should generate 2x210 Mwe and the last thermal power plant Kemerkooy at the seaside is designed to generate 3x210 Mwe.

We stayed in the plant guest house for 2 days. We had our protective heavy work cloths, barets, protective gloves and hard shoes to inspect the boiler inside. We inspected the complete boilers, one after another almost every inch, from bottom wall to all four side walls, as well as roof wall.

Let me try to explain what we have found in the end,

The original contractor, so-called reputable East European company then designed the boiler and put almost no compensation mechanism to their boiler water tubes walls. In simple words, the water tube walls were heated when fuel (lignite coal) was fired, the boiler tube walls get hot, want to expand but they can not expand since there is no adequate expansion mechanism, therefore they are bended, become round or even broken under heavy heat load. So simple.

It was so on all boiler walls, however that was compensated geometrically at side walls, but on the roof, it was so apparent that the complete roof surface was like rough sea wave, all sinusoidal surface.

In all thermal power plant steam boiler designs, you put certain compensation detail to all directions in order to compensate the expansion.

That missing detail was also repeated in all other nearby power plants, which were constructed by the same East European company

The power plant engineers were aware of that important issue, but they had nothing to make any correction, nor any initiative to make any remedy

The other major problem was due to incoming poor quality local lignite mine. Plant was designed to fire lignite with around 2000 kcal/kg lower heating value. Incoming Lignite has average 1000. Incoming lignite was to be cleaned, should be free from unburnable stones, soil, etc, should be enriched with water floating process etc.

Coal was fed as received, by machines in the open coal mine, no cleaning, no screening, no upgrading, no selective mining.

So all unburnable material (stone, soil etc) were grinded with no purpose, fed into the steam boilers with no heat output. Plant was feeding unnecessary amount of supplementary fuel oil in order to fire the poor quality lignite in the boiler.

Third missing issue was inadequate number of soot blowers. You should

clean the boiler walls in every 8-hour shift with steam. They had high content of calcium in the incoming lignite. That calcium compositions were stuck to boiler wall, and they had almost minimum wall cleaning due to inadequate number of steam blowing soot blowers. Result was power output drop from 210 MWE to 150 Mwe in a few months. They stop the power plant and clean the inside surfaces with pressured water for 1-month each time before start-up again.

So power plant needed for major rehabilitation, expansion details were to be added to all walls, especially to the roof water tube walls, more soot blowers were to be assembled, and incoming poor quality lignite has to be washed, improved, cleaned before feeding into boilers.

We prepared our site report upon return to our offices, with photographs and sketches, and delivered to the power plant administration. All our work was free-of-charge,

Since then power plants were operated as explained above.

One day, one after another, all steam boilers stopped. No more.

They had inefficient dust filters, unreasonable amount of boiler tube failures, no flue gas desulphurization etc.

Local environmentalists reacted, and the public enterprise in charge of power plant operation decided to cease the power plant operation in these 3 power plants.

For a while, administration wanted to sell the plants to private companies. Nobody wanted to purchase. They had to have rehabilitation. Then World Bank announced a rehabilitation fund to rehabilitate the plants, with some addition by the public administration. Now that is in international tendering.

In market economy, in complete private ownership, you do not work with a client whose performance is not good, who delivered a poor product, a poor system. There is a saying that "you cannot cheat a client twice, three impossible."

In Erdemir Iron & Steel mills plant, once a reputable Italian company has received a big thermal power plant order. They are to fire heavy fuel oil to generate 180 tons of high pressure steam at maximum continuous capacity, but in any case they could not reach above 140 tons per hour.

So Erdemir administration blacklisted the company, but also blacklisted all Italian companies.

When we received the 5th power plant steam boiler order, we were requested to replace all Italian supplies, steam boiler tubes, valves, fittings, fans, pumps etc. all.

A foreign company receives a big important order to construct a high capacity power plant, they cannot satisfy the expected performance values, you do not disqualify them in the second power plant, then you invite for the third power plant. All three power plants are failure. Then you invite them for rehabilitation. You should disqualify at the upfront.

Now we have a rehab tender with a budget figure between 80- 100 m US Dollars.

After evaluation of the proposals, you invite the original supplier for rehabilitation since their price is the lowest.

Rule. You should not invite the original company to the rehabilitation tender.

Rule. You should not award the lowest price

Rule. A foreign company cannot make the rehabilitation- that is for sure

They make some activity, receive their money or go to arbitration and leave the country never come back

Rehabilitation has to be made by the local companies

They made the correct design, appropriate design to fire the available indigenous lignite, they cannot escape to anywhere

You should not wait that long for rehabilitation of the power plants

Local public R&D funds are to be spent for this purpose to develop local engineering

When young local engineers are paid properly, they work hard as elsewhere even much better for a local accomplishment

Foreign companies can escape in case of any performance failure, local companies cannot escape, they are destined to succeed

You gain local experience and expertise to use your local coal mines, as well as your own engineering capabilities

Never leave your kitchen to strangers, get control over your own house kitchen

Get control over your power plants to operate properly, make design changes by yourself,

The World Bank funds are not free-of- charge, we shall pay back all together

Rehabilitation works are not so difficult, this is not space technology. We are talking about some bundles of boiler tubes. A country with F-16 fabrication plant, can do much easier work in thermal power plants. Our young engineers can do much better, they are no different than other counterparts, I believe that even much better

In Yenikoy thermal power plant,
You will add expansion joint details to all steam boiler tube walls to avoid tube failure
You will add ample number of soot blower to clean the inside boiler surfaces and operate them

You will clean the incoming poor quality lignite prior to boiler feed,

You will trust to your own young engineers, you give them enough hardware and software tools for proper design,

We engineers all use the similar or same softwares and hardwares



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<http://www.turkishweekly.net>

You will support local academicians and your local young engineers with public R&D funds

You should support your local companies to handle all design work,

You should not stay under mercy of foreign companies,

If you do, not at the mercy of European/ USA designers or contractors only,

but today Chinese and Indians, or Koreans will do your own homework on your behalf,

Today it is in Yenikoy, tomorrow it is in Afsin Elbistan-A rehabilitation. We need to learn from our past experience.

Your evaluations and contributions will be highly appreciated

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Prospects of The Russian Oil Pipeline to The West, Advantages And Disadvantages of Current Infrastructure

Russia stands as one of the leading operators in the international oil business, being on of the 10 largest oil exporters in the world. In 2000, Russia exported about 145 million tons of crude oil and 50 million tons of oil products. Oil and oil products are the major sources of revenue for Russia, and account for nearly 40% of total exports. According to the forecasts of the Russian Ministry of Economic Development, oil production in Russia will reach 496-515 million tons by 2010 and to 507-540 million tons by 2015-mu. However, the export of crude oil is confronted with the problem of transportation, which on the other hand could lead to an increase in exports of ready oil products.

One of the reasons that could lead to restrictions of the export of crude oil from Russia is the fact that the export pipeline transportation of crude oil is under the ruling of the state monopoly Transneft, which was established in 1993. This reason plays a major role in preventing of the private investment in pipeline's infrastructure development. Lack of capital in urgent moment for investment by Transneft in infrastructure in case of defects, can severe damage production companies.

Currently, Russia's totally has about 350,000 km pipeline, about 2,500 km pipeline including foreign owned by private oil companies, , as well as 50,000 km pipeline belonging to Transneft. The system has 355 stations for the transfer of oil and 861 tanks for the storage of oil a total capacity of which is about 14 million cubic meters. At the moment, from existing pipelines infrastructure can be exported only 4 million barrel of oil per day, while the rest oil transported by the river with tankers and the railways. In 2002, 55% of Russia's oil exported by sea, 40 %, through the pipeline Druzhba and about 5% by rail.

One of the problems that arise in the export of Russian ready oil product is their poor quality. The lack of diesel fuel with low sulphur content reduces attractiveness of the product in the EU markets, where the claim of low ingredient is required. This reason is holding the export of crude oil at current levels.

It should be noted that the main importers of oil from Russia are Britain, France, Italy, Germany and Spain. Currently, the export of petroleum in the United States tempered by the knowledge that the costs involved in transporting Russian oil to this country is much higher than that of the Middle East producers.

One of the ways for exporting of oil through Russian territory in the western area is 2,500 miles Druzhba pipeline with a capacity of 60 million tons per year. This pipeline originates in southern Russia, near Kazakhstan, where it pumped with the oil from the Urals and the Caspian Sea region. When, this pipeline crosses border of Russia with Belarus, where it divided into the northern and southern branches of the plant. The northern branch passes through Belarus and Poland to Germany, while the southern crosses the North of Ukraine and passes through Hungary and Slovakia, ending in the Czech Republic.

Transport performance of Druzhba pipeline to Slovakia is about the 20 million tons of oil a year. The northern highway now fully loaded, while the southern has a reserve capacity and Russia is seeking to increase its power by merging the southern branch Druzhba into the Adria pipeline.

Adria pipeline passes through a deep Croatian port of Omishal, which is in the Adriatic Sea and built to pump oil coming from the Middle East and transport it to the rest of the route to the north of the former Yugoslavia and Hungary. However, subsequently, when it was shifted in the direction of the flow of oil, Russia, through accession to the Adria pipeline Druzhba gained access to the Adriatic Sea. Maximum power Adria pipeline limited to 300,000 barrel oil a day.

The instability of Druzhba pipeline revealed, in January 2007, when Belarus in response to the increase of the gas price by Russia established its transit taxes for Russian oil resulting in the suspension of transit to Europe. In addition, Belarus himself canned pipeline passing through its territory and got 80 thousand tons of crude oil, to meet the needs of own refinery factories. Such a situation may arise in the future, in the case of worsening relations between the countries.

Another export transport network, which serves as a way for Russia to the western markets, is the Baltic Pipeline System. Through these pipelines capacity of which is about 74 million tons per year, crude oil from Western Siberia, Urala-Povoljye and Temeno-Pecorsk oilfields carried to the port of Primorsk, on the shore of the Fin Gulf. From the first day of BPS has projected to export of production of about 12 million tons of oil a year. Through Primorsk which reduced dependence on the trans-Baltic countries export realized oil to the markets of the Nordic countries. Transportation costs from BPS is 3-4 dollars per ton lower than the cost of the route through Ventpils (Latvia). Services transit countries such as Latvia, Lithuania, Estonia and Finland, costing Russia more than a billion dollars a year.

Although this fact favoured Primorsk port but it has the drawback because of the size restrictions for tankers belonging to the port. It should be noted that, when the Baltic pipeline will be constructed till to the ports Murmansk and Indiga, Russia will enable to export 1.6-2.4 million barrels of oil a days to the American market and transportation will take only 9 days that much faster than the transport of oil from the Middle East or Africa. However, Murmansk range distance from the major oil fields and freezing Indiga port in the winter months, are negative factors in the implementation of these projects.

One of the major export Russia's port in the Black Sea is Novorossiysk, through which the bulk of the flow of Russian oil. Oil is delivered here by Samara-Tihoreck pipeline to Novorossiysk, some portion of crude oil also comes from Baku and Makhachkala. After the increase to 15 million tons of oil per annum capacity pipeline Atyrau (Kazakhstan)-Samara (Russia), increased attractiveness of this route for Kazakhstan. Hence the oil across the Black Sea is transported to the Mediterranean and then to the Asian markets. But oil transport in this area is limited to the fact that the tankers are obliged to cross the shallow and busy Bosphorus Straits, and as a result of which Turkey imposed restrictions on the passage tankers through the Straits in case of safety and the environment, thus decrease efficient transport of oil from Novorossiysk.

Right now potential capacity of Transneft pipeline network allows supplying about 226 million tons of crude oil per year for the states outside the former

Soviet Union. Such as, the 78 million tons can be exported in the northern direction, 66 million tons in the western and 67 million tons via Black Sea. Further development of the first two directions of which is transit dependence on neighboring countries is not foreseen.

At the same time Russia intends to increase the export of oil through the Black Sea ports. To this end Russia plans to solve the problems of restricted access of Turkish straits through construction of pipeline Burgas (Bulgaria)-Alexandropolos (Greece). In order to implement the project on the oil pipeline from Bulgaria to Greece, which will be back of Turkish straits was established Pipeline Consortium by such companies such as Transneft, Rosneft and Gazpromneft. Transneft has 33.34% in a new consortium and Rosneft and Gazpromneft each of 33.3%.

It is expected that the pipeline extends for a distance of 279 km. In the first phase transport of oil from this pipeline will be between 15 and 23 millions tons per year, followed by the expansion of it's to 35 million tons per year. In addition to that in perspective Russia planned to export oil under the Black Sea through projected Samsun (Turkey)-Ceyhan (Turkey) pipeline to the Mediterranean Sea.

According to the specialists, the increase in oil production and, consequently, in its exports, growth which could reach up to 300 million tons of oil a year, points to the fact that the present capacity of the pipelines to export of Russian oil to western markets may not be sufficient. If we added to that figures also increasing the volume of oil exports in countries such as Azerbaijan Kazakhstan and Turkmenistan which are partly using Russia infrastructure to enter into the western markets, it can be easily added that today Russia should think about alternative routes to export oil in a western direction. Solving the problem could be a potential increase in the capacity of the existing ways to export oil, the restoration of oil transit through the country, in this case, in the Baltic area and the use of existing in the region of alternative ways to market entry mainly Baku-Tbilisi-Ceyhan pipeline.

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Turkmenistan's Foreign Policy and Its Energy Dimension in the Berdimuhammedov Era

Turkmenistan's future foreign policy is still a matter of discussion as Turkmen leader Saparmurat Niyazov (Turkmenbasi) died and following elections revealed Kurbanguli Berdimuhammedov as the new president. In this new term how Turkmenistan's energy policy and diplomacy will be shaped is another and an important question.

In this regard there are four questions which demands closer scrutiny: Will there be a redirection in the Turkmen foreign policy, will the neutrality policy continue, whether the new president and government will have closer ties with Russia and is this realistic and besides all these, what will be the energy strategy of the new Turkmen authority

Till now, some of the written literature around claims a new shift in the Turkmen foreign policy. Especially in Turkey, the analyses claiming a shift from neutrality to Russian influence, inspired by the Russian press can easily be found

Before everything, these hastily made analyses dated just after February 11th, are far from being analytical and only be included among the studies aiming psychological operations. Under normal conditions, Turkmenistan's permanent neutrality status and its requirements is shaping the Turkmenistan's foreign policy for the last 11-12 years. By considering this, it will be hard to relate these analyses with possibilities.

But, because of the nature of these political environments, these analyses will continue to find space in both Turkish and foreign press.

Turkmenistan's foreign policy has a well known framework. With its logic and dynamics, it will sustain its current status quo. In fact, Turkmenistan has maneuvered successfully around the pressures to distort its neutrality status. In this context, Turkmenistan didn't bow to the US's pressure for a base in Mari. Opposite to the claims by Russian press, contradictory developments were taking place.

Likewise, in the new term continuation of this policy is the essential ingredient of the Turkmen foreign policy. Turkmenistan with its neutrality status, in the foreign policy, is giving signals that it will continue its balanced and multilateral policies especially in the energy related issues. Particularly, if investigated from the view point of the countries having effective and close energy diplomacy and web of relations with Turkmenistan, the exhibits will reveal themselves.

After Turkmenbasi's funeral, the new Turkmen authority has declared that the status quo will preserve its importance as well as the policies and projects were happening in the Turkmenbasi era. From the first day, they took initiative to support this declaration. So, the meetings with Russian officials should be regarded from this perspective. These meetings were a confirmation to the continuation of the Turkmenistan's agreement with Russia in 2003 to sell Turkmen natural gas till 2028. Therefore Russia is relieved after the meetings on February 15th-16th with the ratification of the strategically partnership in energy field.

The other initiative that has relieved Russia is the resurrection of Turkmenistan and Russia Common Trade Commission. This commission has a symbolic meaning to Russia for the well being of future relations. The last meeting was held in 2002. Therefore, Russia acted quickly to regain the position that she lost in the era of Turkmenbasi government and to increase its influence on the new government.

Berdimammedov has no choice but to relieve Russia. When the realities stemming from the region's historical, geographical, political and psychological background is considered, there was hardly anyway out, so this relief may be considered normal.

As the new government increases its domestic power base, the Russian-Turkmen relations will reshape accordingly, and eventually will find its usual course.

Also, one should not undermine the Russian effort to integrate Turkmenistan into regional organizations including Shanghai Cooperation Organization as the foremost one. From this point, there should be no doubts about the continuation of Russian pressure on Turkmenistan.

From another point, the current developments are an indication of the continuation of Turkmenistan's gas cooperation/diplomacy with other countries. In this context, China will start buying Turkmen gas from 2009 and Iran will continue to purchase its share from Turkmenistan. Besides, Turkmenistan's main aim is not only to sell gas to Iran and diverse routes, but to supply the energy needs of the Turkmens in Iran which amounts to a population of 2-3 million. Therefore Turkmenistan is willing to show that she takes care of Turkmensahra. There is no disruption related to Trans Afghan project is expected.

With related to developments in Afghanistan, Turkmen government will continue to support this project, since it will not only strengthen its ties with the US, but also will give a bloody nose to the Russian monopoly with the second and the third routes for the gas export. With these routes South Asian countries, mainly Afghanistan, Pakistan and India will be heated and supplied by Turkmen gas. Another important development is expected to happen from the European Union front. The crisis between Russia and the EU especially in the energy area has also increased the importance of Turkmenistan. In terms of energy security, EU is expected to increase its relations with Turkmenistan. EU's new Central Asia plan and its approach in this context are the indications of this new political plane. In relation, including Baku-Tbilisi-Ceyhan, the pipelines transiting through and terminating at Turkey will increasingly occupy the EU's agenda.

As a result, it is possible to forecast that Turkmenistan will continue and diverse its independent, multilateral, but neutral and balanced foreign policy understanding in the new period. Russia's main anxiety is emerging from Turkmenistan's current strategy and therefore with a "panic", Russia is acting with a big hurry and head over heels.

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Metin Gezen,
USAK Energy Review

Iranian Nuclear Program, Who wins, Who loses?

Energy is never only about energy, even if it is renewable. A renewable target by the US president may hike tortilla prices. "Green" aims may cause an increase in food and soft drink prices. If everything is so related and if energy is such a core issue, energy independence can be regarded as a theoretical nirvana.

In this sense, the world is dependent on oil from the Middle East and will continue to be dependent. Saudi Arabia may not be a big problem, but there are growing doubts about the Saudi production. Iraq on the other hand is still in unrest. But Iran is the hot topic nowadays.

Currently one of the main component of the oil prices is the problems with Iran. Although it may be a bit challenging and impossible to quantify such a component, there are several predictions.

An understandable prediction can be the \$15 Iran crises premium in the oil prices. If the escalation of Iranian crises wasn't as it is now, we may talk about \$40-\$45 price tag. Adding up to all these, gas cartel fears and suspicions may have not an imminent effect, but worths an examination.

In this context, a brief analysis from Russian, American and Iranian perspectives will be discussed and example scenarios will be listed.

Russia

As one of the major exporters of gas and oil, Russia is trying to enjoy the high prices. As long as the world economy is in good health, moderately high prices are good for oil exporting countries.

In this sense, Russia may be content with Iran's current escalation of the strain. Also from Putin's visit, Russia is happy to help other Arab countries to build nuclear reactors.

On the other hand, Putin has expressed his country's discontent with US's unipolar world order. So it may be concluded that, Russia's support for Iran will continue and Russia will try to make the best of the inflated oil prices.

About gas-OPEC issue, there is a realist side and there is a possibility side. Realist side thinks that such an organization is not economically and technically possible, until a fluid LNG market emerges. Possibility side claims why not?

"Who needs a gas cartel" written by Derek Bower from Russiaprofile.org claims that Iran which is the biggest enthusiast of gas cartel, is exporting almost none of the gas resources it has, although Iran has lots of reserves under the ground. He adds "Even the small amount of gas it sells to Turkey is unneeded in that country"

The article also underlines the political reasons to block formation of such a union. It reads "Despite supporting Iran over the nuclear issue, Moscow considers the country its greatest potential rival as a supplier of gas to Europe. In Armenia and Turkey, Gazprom has been busily working to ensure that Iran gets no foothold in either of those transit countries."

Derek Bower also argues about two possible benefits of Russia's support to Iran's nuclear ambitions. One of them is its benefit to the Russian nuclear exporters, the other one is to keeping sanctions on Iran and western capital out of its gas sector.

Both Russian support for Iran's nuclear program and the tension in the region is expected to continue. Because Russia is benefiting most from this atmosphere.

US

US is in deep trouble in the Middle East. It is trying to divert the whole Iraq problem into a Sunni-Shia problem. Starting a Sunni – Shia cold war is better than being at the target of all Muslim groups.

Another interesting article to be published on the New Yorker's March 5th issue, titled "The redirection" by Seymour Hersh. Hersh has been a nightmare for Bush. In his article, he claims "a special planning group has been established in the offices of the Joint Chiefs of Staff, charged with creating a contingency bombing plan for Iran that can be implemented, upon orders from the President, within twenty-four hours."

If you are thinking that the only target will be Iran's nuclear facilities, you may be wrong. According to Hersh, the group is handed a new assignment: "to identify targets in Iran that may be involved in supplying and aiding militants in Iraq"

So, instead of bombing Iran's nuclear facilities, will the US bomb other targets? No one is sure yet. But there is the other possibility that, Iran's nuclear facilities may be bombed by Israel.

US is well aware of the continuation of the escalation. It is not a winner, but trying to headstart and nurture green ideas to reduce dependency.

But from Hersh's article, it may be perceived that US is trying to keep the relations tense for sometime, 1.5 years can be a fair prediction.

Iran

Lots and lots of articles can be found on Iran. There are three groups of articles, one group is written by mainly Iranian experts claiming that world needs Iran, US policy is wrong. With such big reserves this may hold true.

The second group mainly consisting of Israeli and neo-con advocates, thinks Iran is a big danger, should be eliminated as soon as possible and US policy is wrong. This may be true due to attention needing Ahmedinejad's comments.

Third group dominated by Democratic writers, argues that more confrontation will strengthen Iranian regime and will play more into the hands of mullahs and hence US policy is wrong.

Iran on the other hand is lacking persuasiveness. Even Americans are better at reasoning Iranian nuclear program. One American expert claimed that with underinvestment and growing domestic consumption Iran may well need a nuclear program.

Worse than that, Iran is always trying to be forerunner in the Islamic world. Iran may well relate its nuclear program with its commitment to be "the

biggest green house gas reducer” in the Middle East.

Generally there is a common belief that that Iran is trying to develop a nuclear weapon. There is always the possibility that, even if they do it, they will not accept it, hence following Israel's footsteps. In terms of intelligence and politics, Iran and Israel looks similar.

Iran also enjoys high prices, as long as the world economy is in good condition. So we may expect Iran to continue escalation. While keeping the strain, Iran may well try to deepen increase its relations with China, Russia and EU countries.

But being a closed regime is an elevated risk factor for the foreign investors, which Turkey's Turkcell and TAV Airports Holdings have learned from bitter experiences with their investments in Iran.

So, unrest is favourable for Iran in terms of oil prices, but it may block the investment needed to get the oil and gas from those rich underground reserves. In short term Iran may seem like a winner, but in the long term a new direction and easing of escalation is needed.

Conclusion

So, there are several scenarios as usual.

Scenario one. Israel bombs Iranian nuclear facilities while the US bombs the Iranian targets related to Iraqi insurgency. Oil prices hike, Russia wins, Iran and the US lose.

Scenario two. US bombs Iran, Oil prices hike, Russia wins, Iran and US lose.

Scenario three. No one bombs Iran, the nuclear escalation continues, hence the oil prices float not less than \$55 a barrel as Iran gets closer to nuclear bomb. Iran and Russia are the winner. Russia is the big winner, because an isolated Iran is better for Russia. US loses.

Scenario four. US makes it and diverts the violence in Iraq to a Sunni-Shia conflict. The whole region gets affected by it. The prices hike, US becomes a mitigated loser that it is now, Russia gets more active and becomes a winner. Iran is more likely to be a loser than winner in this situation.

Scenario five. The escalation continues and with other factors oil prices hit 100\$, the world economy starts to stagnate. A world wide recession begins. Both oil exporters and importers are affected by this. Iran, Russia and US loses.

These scenarios are presented to give reader a template to contemplate their own ideas. Any of these ideas may be true. But whether it is gas-OPEC or oil prices, Russia is more likely to be a winner, Iran is more likely to be winner in the short term in terms of oil exports but may slide to the loser side as Russia increases its dominance in the energy markets. The current Iran may suffer from an important underinvestment in its energy sector and growing domestic consumption by 2010. About US, the arguments in this essay may fail to reflect any winning strategy, but it is certain that there is no silver bullet for the US. US is more likely to be a big loser in the short term.

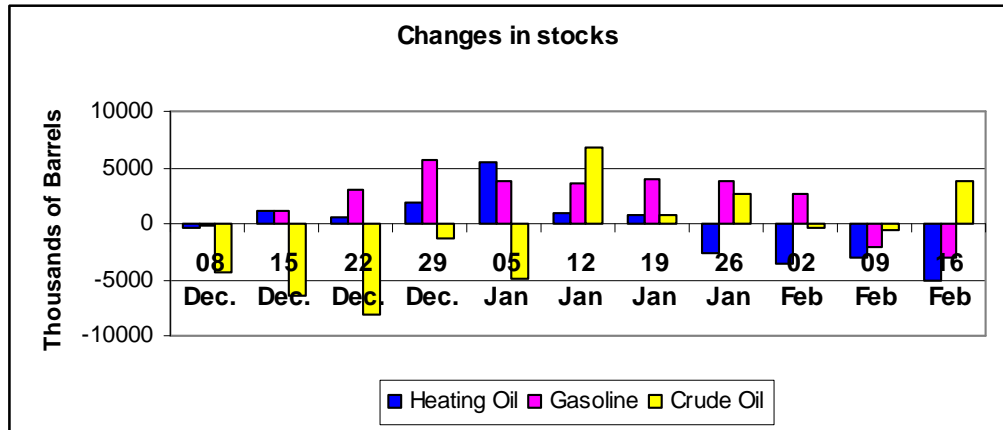
Metin Gezen, Energy Analyst , metingezen@gmail.com

Oil Markets - This Week

Stubbornness of Iran and Decreasing Fuel Stocks in the US

This week the indicators were so volatile that the oil prices tend to decline in the beginning of the week but later the oil prices jumped over the physiological barrier of \$60.

This week as expected the oil prices began to decrease both in Brent and WTI. However on Wednesday the energy department announced a decrease in stocks of distillate fuel and gasoline and the announced numbers were more than expected. Even though the stocks of crude oil, gasoline and heating oil was well above the 5 year average in the US two weeks ago (February, 9) these stocks drastically decreased on February, 16. The decrease in gasoline stocks was about 3.04 million barrels and the stocks declined 5.04 million barrels for the distillate fuel.



Source: Energy Information Administration (EIA)

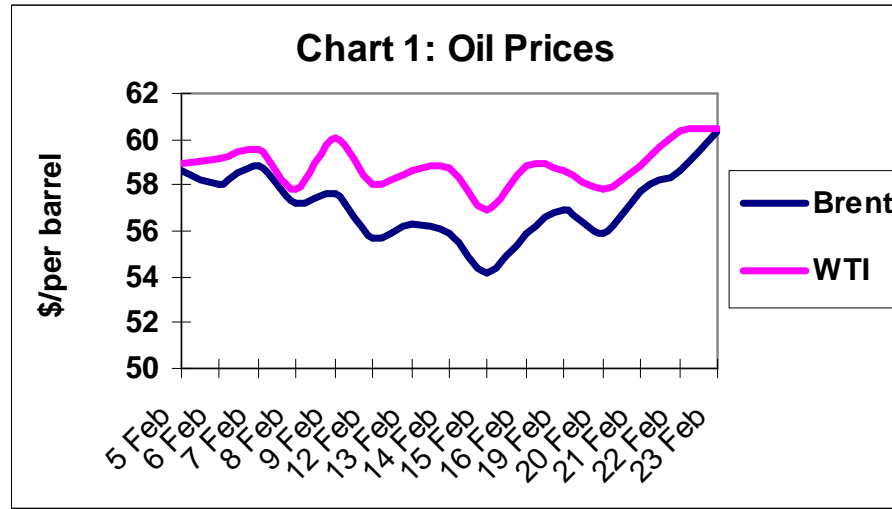
After this information oil prices have changed their direction and began to rise. Both Brent and WTI prices were above the \$60 at the end of the week. The change between the Monday and Friday prices was 6% for Brent and 1.8% for WTI.

Moreover, this week the geopolitical tension increased in the Middle East once again. On 23rd December the Security Council set a 60-day deadline for Iran to end its enrichment program, and put sanctions on Iran's trade in sensitive nuclear and missile technology. However, on Thursday International Atomic Energy Agency (IAEA) submitted a report to the Council and stated that Iran has expanded its uranium enrichment program.

After the report it was announced that the five permanent members of the Council and Germany will convene in London on Monday to discuss the issue. Meanwhile, Iranian President Ahmedinejad said in one of its speeches that "The Iranian people will continue their path of progress and advancement with resolve and steadfastness, and will never be cowed by Western threats and intimidation,"

The outcome of London meeting would be important on Iran crisis. But it should be noted that Russia and China are not in favor of tough sanctions due to their tight trade relations with Iran.

On the other hand, although the tension increases in the Middle East it is claimed by the analysts that the supply of Iranian oil would not be affected since they have economic problems and need the money that is coming from the oil.



Source: Financial Times

For the important indicators it can be said that OPEC seems to be content with level of prices for now and Saudi Petroleum Minister Ali al-Naimi's statements proves this in a way. Last week he said that he did not expect a further reduction decision to be taken in OPEC's meeting in Vienna. For the geopolitical situation; even though it is not likely but a further tough sanction decision that would be decided by the Security Council about Iran might affect negatively the relatively stable situation in the Middle East. In addition, it should be noted that the winter is not over yet and the stocks are falling in the US. Temperatures that would be below the seasonal averages also can affect negatively the oil prices.

For the oil prices next week; according to a Bloomberg's survey 17 of 39 analysts expect a rise while 16 of them expect a fall in prices.

Until next week;

For your comments;
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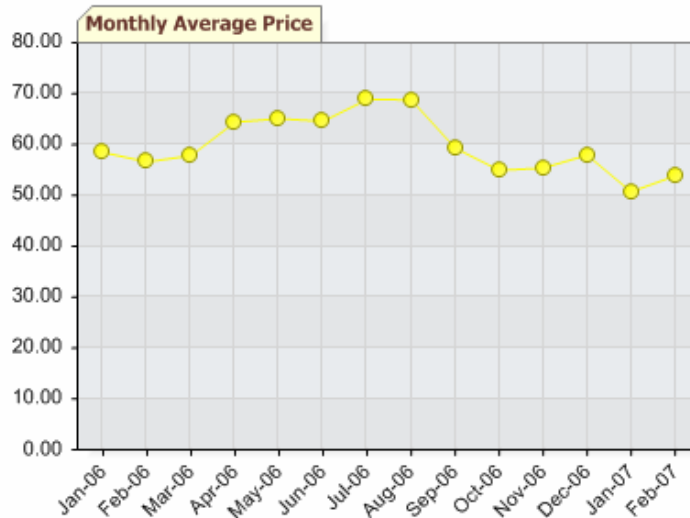
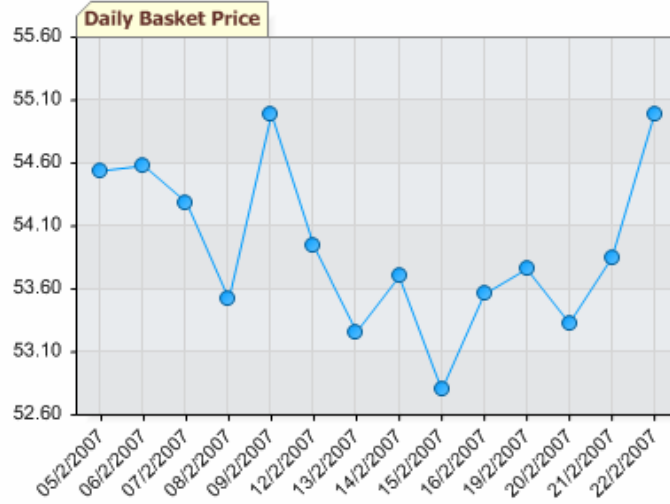
Hasan Selim Ozertem
USAK's Energy Expert

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Indicators

OPEC's Basket Price



Indicators

Indicative Exchange Rates Announced at 15:30 on 02/23/2007 by the Central Bank of Turkey

CURRENCY		EXCHANGE RATES		EXC.RATES ON BANKNOTES	
		Buying	Selling	Buying	Selling
USD/TRY	1 US Dollar	1.3760	1.3826	1.3750	1.3847
EUR/TRY	1 EURO	1.8051	1.8138	1.8038	1.8165
GBP/TRY	1 British Pound	2.6939	2.7080	2.6920	2.7121

Turkish Refinery Output Price

Product Name	YTL/TON	YTL/M3	Special Concise Tax	Dividend	Exclusive of VAT	VAT	VAT included price	Validity Date
Unleaded Petrol 95 OCTANE			YTL/M3	YTL/M3	YTL/M3	YTL/M3	YTL/M3	
İzmit	769,04	584,47	1.362,50	1,32	1.948,29	350,69	2.298,98	23/02/2007
İzmir	769,04	584,47	1.362,50	1,32	1.948,29	350,69	2.298,98	23/02/2007
Kırıkkale	773,20	587,63	1.362,50	1,32	1.951,45	351,26	2.302,71	23/02/2007
Batman	802,30	609,75	1.362,50	1,32	1.973,57	355,24	2.328,81	23/02/2007
Jet Fuel			YTL/M3	YTL/M3	YTL/M3	YTL/M3	YTL/M3	
İzmit	825,47	660,38	0,00	1,29	661,67	119,10	780,77	01/02/2007
İzmir	825,47	660,38	0,00	1,29	661,67	119,10	780,77	01/02/2007
Kırıkkale	838,28	670,62	0,00	1,29	671,91	120,94	792,85	01/02/2007
Kerosene			YTL/M3	YTL/M3	YTL/M3	YTL/M3	YTL/M3	
İzmit	825,47	660,38	760,50	1,29	1.422,17	255,99	1.678,16	01/02/2007
İzmir	825,47	660,38	760,50	1,29	1.422,17	255,99	1.678,16	01/02/2007
Kırıkkale	846,83	677,46	760,50	1,29	1.439,25	259,07	1.698,32	01/02/2007
Batman	853,94	683,15	760,50	1,29	1.444,94	260,09	1.705,03	01/02/2007
Diesel 7000			YTL/M3	YTL/M3	YTL/M3	YTL/M3	YTL/M3	
İzmit	772,85	653,06	834,50	1,27	1.488,83	267,99	1.756,82	08/02/2007
İzmir	772,85	653,06	834,50	1,27	1.488,83	267,99	1.756,82	08/02/2007
Kırıkkale	793,97	670,90	834,50	1,27	1.506,67	271,20	1.777,87	08/02/2007
Batman	808,05	682,80	834,50	1,27	1.518,57	273,34	1.791,91	08/02/2007
Diesel 50			YTL/M3	YTL/M3	YTL/M3	YTL/M3	YTL/M3	
İzmit	776,43	656,08	927,00	1,27	1.584,35	285,18	1.869,53	07/02/2007
İzmir	776,43	656,08	927,00	1,27	1.584,35	285,18	1.869,53	07/02/2007
Kırıkkale	797,64	674,01	927,00	1,27	1.602,28	288,41	1.890,69	07/02/2007
Fuel Oil 4			YTL/TON	YTL/TON	YTL/TON	YTL/TON	YTL/TON	
İzmit	485,72		476,00	1,42	963,14	173,37	1.136,51	22/02/2007
İzmir	485,72		476,00	1,42	963,14	173,37	1.136,51	22/02/2007
Fuel Oil 6			YTL/TON	YTL/TON	YTL/TON	YTL/TON	YTL/TON	
İzmit	372,78		204,00	1,42	578,20	104,08	682,28	20/02/2007
İzmir	372,78		204,00	1,42	578,20	104,08	682,28	20/02/2007
Kırıkkale	379,77		204,00	1,42	585,19	105,33	690,52	20/02/2007
Batman	379,77		204,00	1,42	585,19	105,33	690,52	20/02/2007

Source : www.tupras.com.tr