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Letter from the Editor

Dear Readers,

As the summer time comes, energy again becomes a hot topic. Increasing consumption in both electricity and oil is a major issue. For us, after months of continuous work, summer time is the holiday period.

Our first article is from Gokce Uzunmucu about the growing energy needs of China and the developing relations between Africa and China.

Second article is by Ceyhun Veliyev. In general EU’s energy security policy in Black Sea and an in depth analysis can be found from this article.

As a last word, Putin is visiting Turkey. Metin Gezen made a brief summary of Putin’s aims and objectives.

We hope to see you again next week.

Best Regards.

Editor

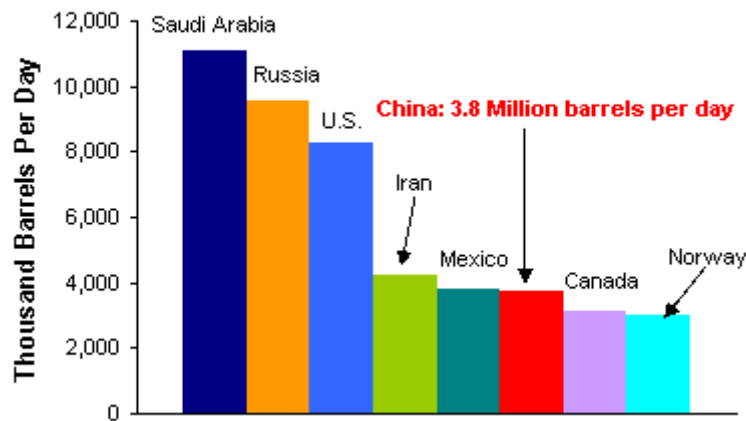
Sino-African Energy “Affair”

Gökçe UZUMCU

USAK's Energy Review

Hosting world's largest population and fastest growing economy with an exceptional rate of almost 10% GDP growth per year on average over the past decade, China also faces the consequences of its enormous size. Especially, China's demand for energy sources dominates the most recent concerns in its domestic and international agenda. Despite being the sixth largest oil producer (Table 1), China is the world's third largest oil importer behind the United States and Japan. In fact, China became a net oil importer in 1993 and since then its demand for oil is rapidly increasing. Consequently, finding diverse energy sources and thus sustaining energy security became the main objective of Chinese foreign policy and investments. For this reason, over the past couple of years, especially following Middle East's loss of its stability and trustworthiness as an oil exporter subsequent to the aftermath of 9/11, China started to look for alternative ways to broaden its imported oil spectrum. Africa which was unluckily ignored by the Western states for a long time, turned out to be the first and most convenient destination for China in this crucial search for cheap, sustainable, and secure energy. But before telling the story of Sino-African “affair”, it is necessary to look at the details of China's energy consumption and have an overview of its energy sector.

Top World Oil Producers, 2005



Source: EIA, *International Petroleum Monthly*

Table 1

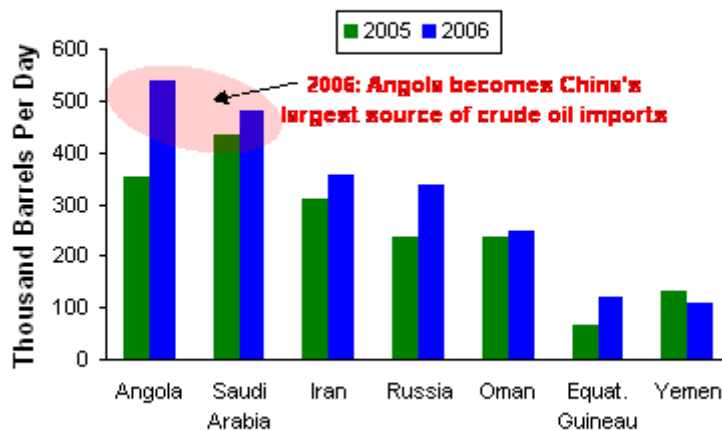
According to Energy Information Administration reports, China possesses 18.3 billion barrels of proven oil reserves as of January 1, 2006. In response to its 3,806.2 thousand barrels oil production per day, daily Chinese oil consumption is 6,899.6 thousand barrels. This natural resources giant, also owns world's largest coal reserves with 126,214.7 million short tons of recoverable coal reserves where coal production is approximately 2,156.4 million short tons and consumption is 2,062.4 million short tons. In addition to oil and coal reserves, China has 53.3 trillion cubic meter proven natural gas reserves. As far as natural gas import and export is concerned China's production of natural gas by 1.4 trillion cubic feet is slightly above its consumption by 1,350.5 billion cubic feet per year as of 2004. With these numbers in mind, the distribution of total energy consumption in China is as follows:

Out of 59.6 quadrillion Btus, 69% of total energy consumption is supplied by coal, 22% by oil, 6% by hydroelectricity, 3% by natural gas and 1% by nuclear energy. Energy intensity in China is 9,080 Btu per \$2000-PPP where total per capita energy consumption is 34.9 million Btus. For the sake of comparison, it would also be useful to mention energy intensity and per capita energy consumption of the United States where total per capita consumption was 339.9 million Btus and energy intensity was 9,568.5 Btus per \$2000-PPP as of 2003.

These conditions naturally have environmental consequences which brings along the question of China's commitment to contribute to the fight against global warming. In particular, China is the third largest carbon dioxide emitter behind the US and the EU, however when it comes to emissions per capita, China is still behind many industrialized countries; 99th out of 211 states. Indeed, this fact prepares for the bases of China's bargaining power in carbon dioxide emissions reduction under Kyoto Protocol.

Environmental concerns and facts aside, considering the organization of energy sector, a fairly interesting picture becomes apparent. Most importantly, Chinese oil sector reveals a mostly state owned and vertically integrated structure where three majorly state owned firms control the energy sector. Both production and exploration are managed by China National Petroleum Corporation (CNPC), China Petroleum and Chemical Corporation (Sinopec) and China National Offshore Oil Corporation (CNOOC). Besides the onshore activities of these firms, all three have explored production opportunities in other countries. With the aim of expanding for oil exploration and production overseas, they invested on many different countries especially over the past couple of years.

Top Sources of China's Crude Oil Imports, 2005 and 2006*



Source: FACTS, Inc. *China Oil and Gas Monthly*
*2006 data is January through June only

Table 2

Naturally, the exploration of these Chinese energy giants for new sources brings the question of alternating energy sources to the foreground. As mentioned before, due to stability and energy security concerns, China has been working on diversifying its

imported oil sources and African states blessed with oil and other valuable minerals became the object of Chinese critical attention. As of 2006, formerly Saudi Arabia centered Chinese oil import, shifted to Angola as one of many African states trading and cooperating with China in several other areas. Industry reports show that in 2006, Angola exported 750,000 bbl/d of crude oil to China, where 32% of total Chinese oil import was from Africa alone (Table 2). The nature of this trade can be also seen from the specific actions taken by the above mentioned oil production giants. In particular, CNPC has invested more than \$8 billion in Sudan's oil sector, including investments in a 900-mile pipeline to the Red Sea, whereas CNOOC purchased a 45% stake in an oil and gas field in Niger Delta for \$2.3 billion and made smaller acquisitions in Equatorial Guinea and Kenya such as exploration and development rights in 2006. Thus, no wonder why Beijing declared 2006 as "Year of Africa" while the continent almost as a whole made a massive contribution to Chinese growth in international oil sector.¹

On the other hand, it is also crucial to examine the structure of this energy trade between China and African states, it reveals some significant differences as far as other oil import-export relationships in the world are concerned. First of all, China's trade relations with Africa are based primarily on aid and infrastructure support as opposed to other commonly signed trade agreements. While China sees Africa as a perfect source to diversify its oil import, Chinese businessmen perceive African countries as very promising markets for their products. Thus, the trade between China and Africa takes a step further and from being merely oil oriented, it passes to a state of comprehensive alliance. As a result of these strong ties developed day by day, Chinese companies get priority in accessing African markets, where Chinese enterprises also build schools, hospitals and railroads in return. For instance, China guaranteed a significant share with a \$2 billion loan and aid in future oil production in Angola which already exports one fourth of its oil production to China.

In fact this is only a small part of the big picture. To start with, China has written off at least \$1 billion African debt and more are expected. Chinese aid to Africa totaled \$5.75 billion in 2006. Accordingly, trade between China and Africa has reached to \$56 billion in the same year. Particularly Chinese Exim Bank, currently the world third largest export credit agency, approved \$20 billion worth of loans for African states. As of September 2006, 36 African countries benefited from over 250 China Exim Bank projects which were majorly infrastructure development projects. The countries receiving these projects and aids included Sudan, Ghana, Zambia, Nigeria, and Congo² which appear to be countries with significant energy resources trading with China.

Within the light of these facts, it shouldn't be surprising to hear some complaints rising against this Sino-African trade, investment and aid trio. Especially some Western countries which stayed away from African internal conflicts and thus overlooked the opportunity in African energy sources, now criticize China for supplying weapons to Africa with the help of trade ties. Sudan, Equatorial Guinea, Ethiopia and Eritrea, and Zimbabwe are some of the African countries bought arms from China. Interestingly enough these countries indeed are the ones trading with

¹ EIA Energy Overview Report on China

² Woodrow Wilson International Center Report

China. In response to these criticisms, Chinese blame Western “colonialists” for exploiting Africa for centuries. They claim that strong ties with African states “will not pose any threat to the interest of European and American oil giants. Instead, it will help Africa prospect and diversify its investment”³ where they also state that unlike Western countries China not only made trade agreements but also implemented infrastructure development projects to support African countries.

Other criticisms include both African concerns on cheap Chinese good and services hurting domestic markets and international fair competition issues since all these import-export activities are run by state owned companies. All parties blame each other for various reasons, however in the mean time energy corporation between China and Africa continues to grow and the situation will most probably stay as it is for a long time, because unlike others, China aimed long-term trade agreements signed with local administrations and enterprises and it was volunteered to enter the conflict areas within African countries while avoiding to interfere with internal issues. As of today, it seems that the anxiety for the future of energy security will carry on and the competition for more energy sources among giants in the world economy will escalate as long as global demand for energy continues to grow rapidly.

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³ Commentary on People’s Daily Online, http://english.people.com.cn/200604/30/eng20060430_262310.html

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EU Energy Security Policy in Black Sea Region: Major Concerns. What are the principal Threats against its Objectives?

Introduction

The increasing need for oil and gas energy supply make European and other Western states focus on the energy security issue by concentrating to get diversified energy sources and provide more secure transit routes for transportation of these materials. It is the fact that 70% of demands for energy supply of EU will be met by imports in the next 20-30 years. The construction of alternative pipeline (oil and gas) routes and securing them from various local and international threats are the issues that Western states are concerned.

Major Objectives

There are several reasons that currently EU (and NATO) members attempt to get alternative energy sources and guarantee the security of main oil and gas transportation routes.

Firstly, it is noteworthy to note that the political instability, fluctuating oil prices in world markets, civil or internal conflicts threats, and global challenges like terrorism, global warming and other issues make Western states to think about supplying their needs by diversifying sources with highly protected transportation routes in order not to face with difficulties, crisis and challenges.

“Soaring oil prices, persistent instability in the Middle East, Russia's apparent willingness to wield energy endowments upon which Europe depends for political ends, a fragmented internal energy market, dwindling European energy production, Europe's inability to project military force beyond the continent, and rising economic nationalism within Europe, are all raising concerns in Europe about energy security” (Jos Van Gennip, www.nato-pa.int).

We know that Russia has monopoly over the main oil and gas energy sources and transportation routes which pass via Russia to European markets. The winter events of 2005 that took place between Russia and Ukraine (which had spill-over effect on other European states) proved that the former can use its monopoly position as political tool to influence other sides. On the other hand, it showed that the price control of oil and gas resources are in hands of Russian giant company, Gazprom. Thus, European states aim to get alternative energy sources in order to decrease their dependence situation from Russia and avoid threat and challenges made by Russia.

The Black Sea region is the most appropriate one that is both rich with oil and gas resources and by using this region as transport route for oil and gas pipelines Russia could be bypassed. Historically, the Black Sea, has always been a crossroads and an area of transition. Oil and gas pipelines have recently proliferated in the region. It is the achievement of EU and its main NATO ally United States that by construction of two crucial oil and gas pipelines Russia fell apart from these routes. These are Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum (BTE) oil and gas pipelines respectively. Apart from this, it helped NATO, especially U.S. to increase its influence in the region, concretely in South Caucasus part. In fact, Georgia and Turkey are full ally and partner of NATO and they were used as primary transit states for pipelines. In this region, except Azerbaijan, Kazakhstan also joined to BTC and negotiations is going over the construction of Trans-Caspian gas pipeline that will deliver Turkmen gas to BTE. However, Azerbaijan remains the main supplier of oil and gas for EU and NATO members. So, the objective for obtaining the diversified energy sources is to rule out the Russian monopoly and avoid from any threats and challenges sought by Russia which was effectively realized unless now.

Furthermore, these are the transportation routes that deliver materials through Black Sea region to Europe and world markets. The more these routes are secure, the more oil and gas will be supplied for markets. So, security of these routes is the primary objectives of Western states. Even in the Comprehensive Political Guidance of NATO (CPG), a policy document that had been agreed by Defence Ministers in June 2006, which was endorsed in Riga Summit, it is shown that the prevention of the disruption of flow of vital resources are within the other aims and objectives of this alliance. The EU members issues Energy Green Paper and the aim is on enlarging Europe's foreign and domestic energy sources, broadening the energy mix and augmenting the range of secure transport routes and basic energy infrastructure upon which Europe relies.

Key Threats and challenges

The Black Sea region states, Azerbaijan, Moldova and Georgia have internal conflicts in Nagorno-Karabakh, Trans-Dniestria and Abkhazia and South Ossetia respectively. The possible eruption of conflict any time especially in Azerbaijan or in Georgia could challenge the security of the pipeline routes. NATO and EU try to achieve peaceful solutions of these conflicts by mediating among the sides. And in the Riga Summit, NATO officials declared it officially that it ought to be the main objective of the conflicted sides to solve the disputes by peaceful means. So, proactive issues are to be done in order to prevent the occurrence of internal conflicts that may create instability within the region and could damage the infrastructure.

After 9/11 terror attacks, the international terrorism became world wide problem and it is one of the main challenges against nations and their peaceful aims. So,

besides getting alternative sources of energy, NATO and EU countries are concerned on security of the main transport routes and try to achieve deep relations with transit states. There is threat from terrorism not only for human-beings but also for pipelines and infrastructure as well since they can be targets of terrorist and extremist groups. So, deepening relations with transit states and modernize their armies are other issues that especially NATO focuses on. In the last Summit (Riga), the Training Cooperation Initiative was offered by NATO to train officers of Mediterranean Dialogue (MD) and Istanbul Cooperation Initiative (ICI) member states in order to develop the level of their armies. Global threats such as terrorism should be prevented in order to provide the security of these pipelines as well. These are the main issues that NATO and EU members are concerned on.

The last reason is that today Russia is using its monopoly position as political tool in order to influence on EU states. So, it is also challenge to its objectives and the break up of oil flow can destruct EU and make economic and political crisis situation within it. It can condition the unwanted disintegration among the Union members as well. It is not occasional that after Ukraine lived problem with Russia in 2005-6 winter European Commission made Energy Green Paper emphasizing its main energy objectives by pointing on diversification of sources and protection of main routes.

The Black Sea region is important as transit area and bridge for getting oil and gas reserves of The Caspian Basin. The strategic significance of this region also conditions the increasing attention of Western states. The Black Sea region is bridge to the Greater Middle East and this region can be seen as the new frontline for some of the main soft security challenges in Europe, i.e. organized crime, drug trafficking, human trafficking, illegal immigration, environmental degradation, etc. The protection of built pipelines and energy routes are within the interests of EU and its main ally NATO.

These are the grounds for better relations among these states and EU. The stability, democratization and sustainable development in this region are within the interest of NATO and EU members. It should be emphasized that all the partnership process goes along with not only military but also political and institutional reforms. The democratic governance, liberalism and civil society guarantee the rule of law and stability in the states that is what NATO and EU members pursue in the region. For instance, the EU's Neighborhood Policy encourages democratic processes in the countries of the region.

Moreover, several partnership programs are realized with the region states such as PfP and IPAP by NATO and European Neighborhood Policy (ENP) by EU help further approach between the sides. The Union has also initiated and supported several regional co-operation programs in the Black Sea for the transport of energy resources. The two main programs are TRACECA (Transport Corridor

Europe - Caucasus - Asia) and INOGATE (Interstate Oil and Gas Transport to Europe).

All three Caucasian states have signed Memorandum with EU which is ground for further relations among the regions states and EU members. Actually the main EU policy toward the region states is based on bilateral relations rather than on multilateral one. In my opinion, it somehow impedes the fast integration in the Black Sea region although some became members like Romania and Bulgaria.

Currently, NATO became much more involved in energy security issue and the safety of infrastructure. One reason is that most of the NATO members are the EU countries. So, the aims are in coincidence in this concept. Another point is that U.S. who is the main actor in NATO tries to increase its influence in the region by the involvement in energy security issues. It is clearly reflected in the Riga Summit Declaration that the energy security and protection of infrastructure are the fields that NATO can be involved in case of need for support and protection. EU does not have large military equipment like NATO but it can use the latter's materials according to Berlin Plus Agreement. And NATO Respond Forces might be also deployed for the energy security interests of EU in case of need in prospect. Thus, we can see active collaboration of EU and NATO in case of energy security in the near future.

So, the needs for oil and gas resources in Western states especially in Europe increase year by year. However, they face several difficulties, political and economic challenges while consuming oil since the main exporter for European markets is Russia. And the diversification of energy supply and security of transportation routes are the objectives that Western states concentrate on. The elimination of possible threats that they meet on the energy security is another objective of EU incase of energy policy. So, it is the direct involvement of NATO and EU to energy security issues, playing certain role for getting alternative sources of oil and gas and providing the security of transportation. The Riga Summit and later developments showed (s) that how NATO is reoriented in energy security and protection of infrastructure. And EU issued Energy Green Paper which is about the key European energy objectives such as increasing supply security. Today EU main policy toward the region is based on getting energy sources with secure and reliable routes.

In my opinion, Azerbaijani side can also be satisfied with the high involvement of EU (and NATO) to energy issues since it can guarantee the energy and infrastructure security which is due to the current energy security policy of Azerbaijani government.

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Putin's visit and the energy strategy towards Turkey

It is no secret that Russia is not happy with Turkey's involvement of energy projects like BTC and intention to increase relations with the Russia's backyard. Therefore Putin's visit to Turkey is very important for understanding the latest stances and forecasting the next moves of the actors of the "New Great Game".

Putin will visit Turkey during the first days of this week and according to the Russian Ambassador in Ankara the visit is only about energy; no other topics at all. USAK President Dr. Sedat Laciner says "What the Russian ambassador is said to have highlighted is exactly correct: This issue is much more important than Turkish businessmen's assets and liabilities. One can sharply see this as an undeniable fact looking at figures of bilateral trade between Turkey and Russia," in an interview to Emine Kart from an English daily.

So what is on the agenda? This is probably what we will see this week.

Russia is like a Kremlin (means castle in Russian) or citadel from outside. You should better be a Kremlinologist to understand what is inside the minds of Russian policy makers, if you are an outsider. From inside, the whole decision making process can be limited several people or fractions like Petersburgs, Silovikis, Liberals or Yeltsin's men.

Putin's rise to power is an important milestone in Russia. Putin's rise to power is the work of Russian inner state and Russian intelligence (KGB) claims Dr. Seyfettin Erol, head of USAK Eurasian Studies, and adds : "He achieved a centralized strong government, the rights given after 1991 has been retracted one by one. [...] There is an increasing sympathy towards Russia in Turkey including the military but there are people concerned with this closing up. Turkey and Russia relations are entering a new period. 2008 is Turkish Culture Year in Russia and Russia is following a step by step, cautious and feet on ground policies. But the trust problem is still apparent."

But, how about the visit? Again Sedat Laciner's interviews withelds some clues. "Moscow wants to do the same [the deal between Germany and Russia for a gas pipeline by-passing Poland through the Baltic Sea] in the south with and via Turkey," He also claims : "What Russia really wants is to transport the Kazakh and Caspian oil and gas through Turkey either via tankers or by marine pipelines. Moscow eventually wants a Russia-Turkey terminal,"

Goals?

Russia doesn't limit itself or divides the world into "enemies or foes" openly. Rather a stealth tactic is embraced. Like Gas OPEC maybe?

The visit to Turkey breeds long and short term goals. One of the short term

goals can be about attracting Turkey, which is at odds with the EU and US, to its side. Long term goals are a bit complicated. This may range from Georgia's relations with Turkey to Central Asian politics.

The other very important point is the chronology of Putin's meetings. From sources (Turkmenistan and Kazakhstan) to transit (Turkey), Russia looks like carrying out a step by step policy. This policy through Russian style bilateral agreements may end up with a less energy secure Europe.

The EU's foreign policy toward Central Asia is like Santa Claus, that means we see something and we are not sure if it is real or not. Worse than that is, whether anything the EU policy makers have told to Central Asian counterparts have scared them. Just months after the EU's "successful" talks, Russia signed long term agreements with Kazakhstan and Turkmenistan.

Turkey on the other hand is losing its energy via domestic politics. From elections to military's position, the local agenda is quite complicated. The relations with Iraq, PKK, Cyprus and Armenian problems are also on the list. And Turkey is step by step getting isolated.

In this framework, a Russian offer for allowing Turkey to re-export part of Russian gas and forming energy cooperation with Russia will be a good offer for Turkey. But this will eventually break the ties of Turkey with first Azerbaijan and Georgia and later with others.

This is because if Turkey cooperates with Russia, there will be no need to Turkey from a Central Asian perspective. A Russian ally Turkey is not alternative, so her marginal value is not much.

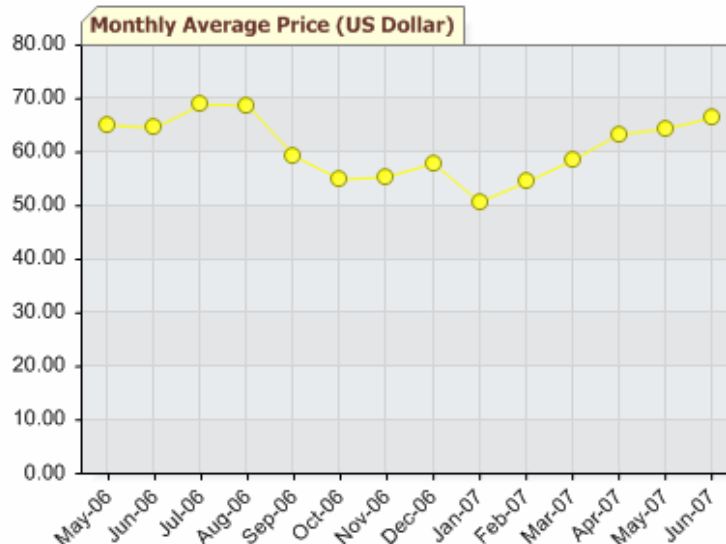
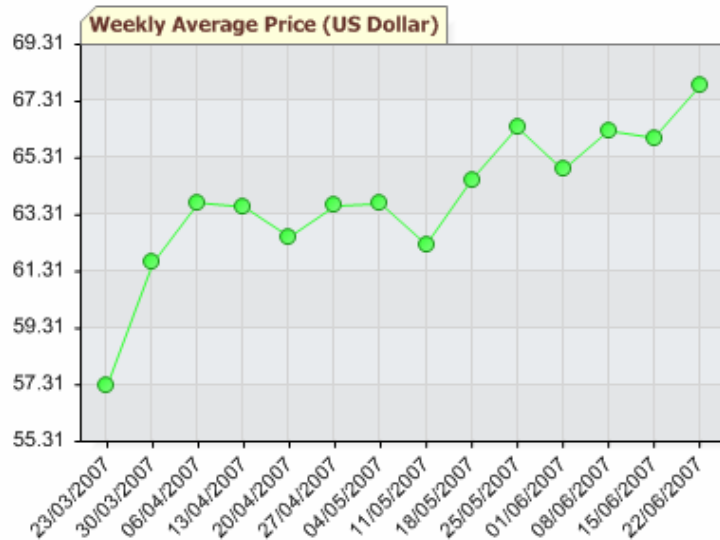
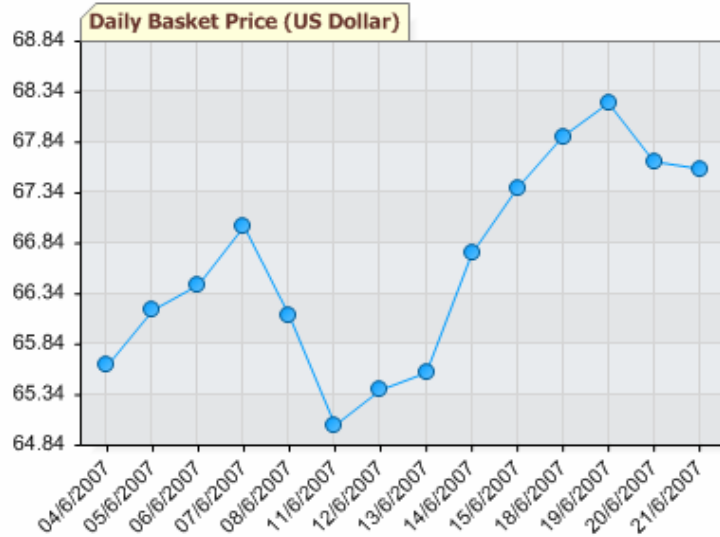
There is another issue, whether this visit is about Gas OPEC or not? That is something to be suspicious of. Russia is, step by step, meticulously trying to make agreements with those countries which will strengthen her hand. A Russian Nabucco is possible for both Russians and Bulgaria. And with a Russia surrounding her gas pipeline arms towards north and south of Europe, as Dr. Laciner claims, Europe is in trouble.

As a result, his visit is a small step in the short run but a big step towards a Greater Russia in the long run.

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Indicators

OPEC's Basket Price





Indicators

Indicative Exchange Rates Announced at 15:30 on 22/06/2007 by the Central Bank of Turkey

CURRENCY		EXCHANGE RATES		EXC.RATES ON BANKNOTES	
		Buying	Selling	Buying	Selling
USD/TRY	1 US Dollar	1.3027	1.3090	1.3018	1.3110
EUR/TRY	1 EURO	1.7492	1.7576	1.7480	1.7602
GBP/TRY	1 British Pound	2.5990	2.6126	2.5972	2.6165