

## Inside

---

**Russian Expedition To The North Pole And Energy Policy: Is There Any Link?** 2

---

**Kazakhstan Tengiz Oil Fields, June 1996** 4

---

**From Gazprom's reaction to Iran, A view on Turkey's gas agreement** 8

---

**Indicators** 10

---

OPEC's Basket Price 10  
Exchange Rates 11

## Letter from the Editor

Dear Readers,

It has been so long that we could not deliver USAK Energy Review you, our readers. We were in Kazakhstan to monitor elections, which were held on 18 August 2007.

However, preparing a good review of the month we would like to compensate this absence. Moreover, we put the previous issues of Energy Review to our web site: [www.turkishweekly.net/energy](http://www.turkishweekly.net/energy) for you to complete your missing issues.

This month our Editor in Chief Mr. Ibrahimov analyzed the latest rivalry on North Pole and put forward interesting points.

Mr. Direskeneli wrote an article about his observations on Tengiz oil fields in a stylish way.

Lastly, Mr. Gezen discussed the Memorandum of Understanding signed by Turkey with Iran in light of Russia's reaction.

I would like to state that we are always really glad to receive your comments and your contributions,

My Best Regards,

Hasan Selim Ozertem

Editor

## Russian Expedition To The North Pole And Energy Policy: Is There Any Link?



**Rovshan Ibrahimov**  
Editor in Chief of USAK  
Energy Review

*If that claim to possess the Russian archipelago Lomonosov, Russia will get the huge deposits of oil and gas in this part of the land and up to 25% unexplored reserves.*

*Concurrently with these events, Denmark announced that it is also intended to send his expedition to the North Pole to find evidence that the archipelago Lomonosov is a continuation of the island of Greenland, which is under the jurisdiction of that country.*

Last month, Russian expedition conducted a study on the bottom of the North Arctic Ocean near the North Pole. The outcome of the expedition was locating the Russian flag, made of titanium at a depth of 4 km. After this unusual expedition, Russia intended to achieve several goals simultaneously.

First, to show the world that Russia has been able to rebuild its strength after the collapse of the Soviet Union and its economy is now able to conduct such a costly study.

A second important reason is the desire of Russia to prove ownership of the sector to its Arctic territories. According to the Russian view, in the northern archipelago Lomonosov is a natural continuation of the Russian mainland. In 2001, Russia had applied to the UN for the recognition of the sector North Arctic Ocean as Russian territory. But UN insufficient evidence rejected this claim. As a result of that Russian cruise on the ocean bottom.

If that claim to possess the Russian archipelago Lomonosov, Russia will get the huge deposits of oil and gas in this part of the land and up to 25% unexplored reserves.

However, the results of the expedition were not what awaited Russian side. Russians couldn't find evidence that the archipelago Lomonosov is a continuation of Russian territory, and therefore ownership of the northern sector is still open.



In addition, Russia drew attention to the northern territories, other countries bordering the region. Countries such as the United States, Canada, Norway and Denmark also have their claim to North Pole sector. And as a result, Canada immediately soon after the Russian expedition announced plans to deploy two military facilities on the northern territories. Thus, Canada intends to bring its sovereign right to the

northern point of the planet. Concurrently with these events, Denmark announced that it is also intended to send his expedition to the North Pole to find evidence that the archipelago Lomonosov is a continuation of the island of Greenland, which is under the jurisdiction of that country.

What has given Russia an expedition to the North Pole? Firstly, it can be assumed that Russian expedition could succeed, and Russia would be able to prove their right to the North Pole. At the same time, Russia would be in a position to process huge hydrocarbons. However, even in this case Russia could not explore it. In fact, that the exploitation and extraction of energy at the North Pole requires large financial resources and special equipment, which Russia does not currently possesses.

*One of the main reasons for the delay of full operation of such large fields in the territory of Russia as Shtokman and Sakhalin-2 is the lack of financial resources from Gazprom.*

Indeed, one of the main reasons for the delay of full operation of such large fields in the territory of Russia as Shtokman and Sakhalin-2 is the lack of financial resources from Gazprom, a monopoly in the gas industry.

One of the reasons that could haunt Russia is a desire of the "facts" in the Northern outskirts, with the aim of further research in the future, when Russia have such opportunities. The reason why Russia chosen this time to study at the North Pole may be that at this particular time is considered the future status of Kosovo, which the United States and the EU want to see an independent state and which Russia strongly opposed.

In this case, Russia is an excuse to bid and the replacement of recognition of the sovereignty of Russia over the Northern Territories, Russia could cede on the issue of Kosovo's status.

While this assumption and does not go further than anticipated, it is difficult to believe that Russia could commit such a "blunder", after the expedition, which caused such a reaction, even from countries such as China and Australia, have nothing to do with the North Pole.



If suggest that shortcoming still occurred, in this case, one that the energy sector was not a monopolistic structure, but is a system with complex decision-making mechanism. And in this case the decision on energy issues are not always totally rational. Otherwise, it's difficult to explain the chase Gazprom to acquire distribution networks in Europe, with the feeling an acute shortage of finance for the development of new

deposits, of which a sorely needed in the very near future. Or increase natural gas exports to Europe, with the acute shortage of this raw material in many areas of Russia. The list could go on, delaying the development of the necessary infrastructure for the production of liquefied gas, a strategic product, which Russia will be able to enter new markets at home and around the world.

We can only believe that Russia has the answers to these questions, or gas customers in Europe, are increasingly using the product, may soon feel the consequences of decisions of people in charge of the energy sector in Russia.

**Rovshan Ibrahimov**

[rovsen@azerimail.net](mailto:rovsen@azerimail.net)



**Haluk Direskeneli**  
Energy Expert

<http://energynewsletter.turkey.blogspot.com>

## Kazakhstan Tengiz Oil Fields, June 1996

In early 1996, [TengizChevroil](#) (TCO) joint venture asked their major contractor company Bechtel of USA to make condition assessment of the existing thermal power plant in the Tengiz field at west of Kazakhstan. Bechtel transferred the request to their recommended boiler supplier, Babcock & Wilcox Company of McDermott Group of companies. The Group decided to send two site supervisors/ managers to Tengiz Oil field.

Mr. Alan E. Reid, Service Engineer from Babcock & Wilcox International Inc of Barberton, Ohio USA, and Mr. Walid A. Bader, Area Marketing Manager from McDermott Offshore Drilling Inc of Houston Texas USA were sent to Tengiz Oil Fields in Kazakhstan in June 1996.

Condition assessment study of the existing steam boilers would be made on paid basis, and hence all expenses would be paid by the client and a lump sum engineering fee (50K USD) would additionally be paid to the invited company.

Since we were the B&W's closest JV company to the Tengiz site, I was also asked to join the team to support them at site and get ready for necessary proposal preparation if/when needed in future.

*Tengiz field, in western [Kazakhstan](#), is located in the low-lying wetlands along the northeast shores of the [Caspian Sea](#). Discovered in 1979, Tengiz [oil field](#) is one of the largest discoveries in recent history.*

Tengiz field, in western [Kazakhstan](#), is located in the low-lying wetlands along the northeast shores of the [Caspian Sea](#). Discovered in 1979, Tengiz [oil field](#) is one of the largest discoveries in recent history. The city of [Atyrau](#), 350 kilometers north of Tengiz, was/is the main transport hub of Tengiz oil. Many nations are involved in a large [geopolitical](#) competition to secure access to this source of oil.

*The major partners in TengizChevroil are [Chevron](#) (50% ownership), [ExxonMobil](#) (25% ownership), the [Kazakhstani government](#) through [KazMunayGas](#) (20% ownership) and [Russian LukArco](#) (5%).*

I took the appropriate/ connecting flight from Istanbul to Budapest to catch the next charter flight of Chevron/ Bechtel employees to the Tengiz Oil fields. At Budapest Airport, our team has gathered. Our flight was from Budapest to Atyrau of Kazakhstan on a charter flight weekly operated by Hungarian Airlines on a Tupolev 124 Russian made plane. Other passengers were Chevron employees from Louisiana Gulf offshore or onshore oil fields, riggers, diggers, mechanics, oilmen with difficult southern accent and the engineers from Bechtel London office, mostly British nationals, as well as employees of auxiliary services such as catering, logistics etc.

After 4 hours of flight, we landed in Atyrau airport. It took almost four (4) more hours to pass the custom clearance for all 150 passengers, since there were no computers for registration and all paper work was done manually. Then snacks and water were distributed. We were invited to board buses to go to the Tengiz oil fields almost 350 kms far from the airport in the desert. Vehicles were old Russian made, with no air conditioning. All curtains were down; all windows were wide open in order to reduce the desert heat. Road was in single lane wornout, sometimes rough bare soil with loopholes all the way.

After 3 hours, buses stopped on the open-air, in the middle of desert, people shouted as "Peace Break", which had a different meaning but equivocal. Men lined up on one side of the empty road for relaxation and smoking, and leg stretching, ladies did the same on the other side of the road. We repeated that ritual two more times before we reached to the camp site in the oil fields.

Estimated at up to 25 billion barrels (4 km<sup>3</sup>) of oil originally in place, Tengiz is the sixth largest oil field in the world; recoverable crude oil reserves have been estimated at 6 to 9 billion barrels (0.9 to 1.4 km<sup>3</sup>). Like many other oil fields, the Tengiz also contains large reserves of [natural gas](#).

At the camp site, we were given individual rooms with bed only but no toilet, no shower in prefabricated barracks. Our barracks were allocated for local Russian/ Kazakh female workers/ office staff/ lawyers/ accountants and for the international service staff who were in Tengiz Oil Fields for short term stay.

We were supposed to use the common toilet facilities in the middle of the barracks. Respective Men/ Women Toilets, and showers had no doors at the entrance nor anywhere inside, all open.

The next morning we had registered, filled many forms, administration took Polaroid photos and created ID cards which we should expected to carry all times. Then we took crash course on safety for one full day.

Since the oil from Tengiz contains a high amount of [sulfur](#) (up to 17%), 9 million tons of sulfur byproduct has been stored in sulfur blocks. We saw those sulfur blocks in piles.

The crash course on Safety was because of any dangerous gas / sulfur leaks which happened in the past in similar sites and resulted many human losses. In that safety course we were taught what to do in case of any dangerous gas leak, where to go, how to use our gas masks, how to vacate the site, where to escape. In the end we took a written examination and got certificate / license to work in the site.

The [TengizChevroil](#) (TCO) joint venture has developed the Tengiz field since 1993.

The major partners in TengizChevroil are [Chevron](#) (50% ownership), [ExxonMobil](#) (25% ownership), the [Kazakhstani government](#) through [KazMunayGas](#) (20% ownership) and Russian LukArco (5%).

Every morning at about 05:00 hours you wake up, go to the common toilette section, get cleaned, return to your room, get dressed, board the service busses and go to the production site/ oil fields/ offices to work which was almost 25 kms far from the camping site.

Bus ride takes 30 minutes. It was a safety precaution for any gas leaks at the working site. We had individual gas masks. Oil field was in the middle of an empty stone/sand desert, no animal, no plant anywhere.

Each day we were working from 06 to 18 hours with one hour lunch break, for 6 days in a week plus Sunday morning.

The Tengiz oil field is one of the biggest in the world. It contains 24 billion barrels of high quality oil and six to nine billion barrels of recoverable oil. It is deep, having a target depth of 4,500 meters. It also contains significant gas reserves (18,000 billion cubic meters).

An area of major geopolitical competition involves the [routing](#) of oil out of this oil field. Oil from the Tengiz field is primarily routed to the Russian Black Sea port of [Novorossiysk](#) through the [Caspian Pipeline Consortium](#) (CPC) project.

*The Tengiz oil field is one of the biggest in the world. It contains 24 billion barrels of high quality oil and six to nine billion barrels of recoverable oil. It is deep, having a target depth of 4,500 meters. It also contains significant gas reserves (18,000 billion cubic meters).*

*The Tengiz oil field is one of the biggest in the world. It contains 24 billion barrels of high quality oil and six to nine billion barrels of recoverable oil. It is deep, having a target depth of 4,500 meters. It also contains significant gas reserves (18,000 billion cubic meters).*

The field required a great deal of infrastructure investment to develop. Most of this was designed and implemented by the Russian Technical Design Institutes, but a consortium of western contractors built the processing plant. The consortium included Lurgi, Litwin and Lavalin.

The second day we were exposed to the power house which houses in-door 7 each 40 tons per hour steam output capacity field erected steam boilers, which were in a very poor operating conditions, not properly maintained for a long time, barely serving the facilities steam demand.



We spent next two full weeks in the power house, inspected in and out of steam boilers, furnace walls, drums, generating banks, superheaters, safety valves, instrumentation and controls, pumps, external and internal steam pipes/ tubes, technical drawings. We took photographs, we measured tube and drum thicknesses.

We noted every information of the subject boilers. On the site we drafted our preliminary "Site Report" to finalize the actual "Condition Assessment" report upon return to our home offices.

The only Sunday we were at Tengiz, we visited the nearby Turkish Contractor's site a few miles away. Compared to our facility, which was purchased from the former Hungarian State contractors, and kept in operation with minimum renovation, Turkish site facility was new, and much better. Each worker/ technician/ engineer had a separate room with shower and toilet. They had satellite TV access, latest PC hardware and software, construction machineries, all in good condition, machine shop etc. They had delicious fresh food, and very civilized working environment. They were subcontractors of TCO and Bechtel at oil field, pipeline construction and engineering in the offices.

In our TCO offices at the oil field working site, each person/ engineer/ worker has to work full four weeks, then go to paid vacation for next four weeks, giving his space/ table/ responsibility to his/her replacement person. This type of work was/ still is called "28/28 rotation". Normal working practice was such that they would be solving the easy daily problems and leaving the troubles to his/her replacement. In the offices it was my sincere feeling that they had very tense, difficult peer relations, stressful, sort of mobbing conditions.

At dinner time, we had choices of meat/ chicken/ fish all from frozen stock, plus rice/ pasta/ potatoes with some green salad, milky dessert and fruit juice. After dinner, we had nothing to do. We were taking our tea/ coffee, sitting on our dinner table and watching other people, having some conversation with the local ladies, and then we all go to sleep.

Office/ Catering/ Service works were handled by local Russian/ Kazakh ladies who were well educated personnel. They were lawyers/ administrative staff, typist/ translators etc. They were beautiful daughters of Tolstoy and Dostoevsky and Tchaikovsky and Mussorgsky and you could talk on very intellectual conversations long hours.

At the end our site surveillance on the power house, we completed our site



# Energy Review

Issue : 26  
Date:03.09.2007

<http://www.turkishweekly.net/energy>

activity and returned to our offices at our respective countries. We exchanged our notes and completed and submitted our final "Condition Assessment Report" on the existing steam boilers to TCO authorities. In summary we were advising them that they should dismantle and replace the existing steam boilers, open a public tender to purchase new packaged steam boilers from international markets.

We also added our budget/ estimated / lump sum/ ball park proposal for new 4 each 70 tph packaged steam boilers for their budget. In year 1997 we received the order in open international competitive tendering for construction/ fabrication/ installment/ operation of 4 new package boilers within 12 months.

Our Client was BECHTEL International Inc. in United Kingdom, and we were responsible for the followings: Design and detail engineering, 4 each 70 tons per hour, steam boiler supply and installation, Supply and installation of Draft system, Feed water system, blow-off and drain system, external piping, raw water treatment system, condensate treatment system, Paint, refractory, insulation, automation of related equipment with material supply, Tests and commissioning, Operation and maintenance manual. Price was approximately 10 million US Dollars (in 2007 prices).

What happened to the young talented international engineers we met at the site. They had short term love affairs with the daughters of Dostoyevsky and Tolstoy who were highly educated, sincere, romantic and delicate, and most couples ended up with long term marriages. Ladies of Tengiz desert left their country and emigrated to Louisiana USA, London UK or Istanbul Turkey. International engineers had high degree of possession instinct, which the local counterparts had minimal or almost lack of, due to long Soviet reign. So our companies have also worked for mixing cultures as well as genes.

Your comments are always welcome. Thank you & best regards

[Haluk Direskeneli- Energy Analyst](#)  
ODTU ME'1973 - Ankara MMO 6606  
0533 353 1530- 0312 287 4914  
<http://energynewsletterturkey.blogspot.com>

**Metin Gezen**  
USAK's Energy Review  
metingezen@gmail.com

## From Gazprom's reaction to Iran, A view on Turkey's gas agreement

Last month, Turkey and Iran have signed a preliminary agreement for cooperation in natural gas. "This Memorandum of Understanding ... will allow the transit of Iran's gas to Europe via Turkey and will let Turkmenistan's gas be exported to Europe through Iran's soil," Kazem Vaziri Hamaneh, Iran's oil minister told to the reporters in Ankara.

*Basically, the memorandum of understanding was a step for further cooperation between the two countries. Iran will have the tap of the Turkmenistan's gas to Europe and get the three of the south Pars fields developed. Turkey will have a source for doomed "Nabucco" project.*

Basically, the memorandum of understanding was a step for further cooperation between the two countries. Iran will have the tap of the Turkmenistan's gas to Europe and get the three of the south Pars fields developed. Turkey will have a source for doomed "Nabucco" project.

Since the start of 2007, the general mood in Ankara went between two extremes : "Nabucco is dead" and "Nabucco will be done". Can this agreement save Nabucco? For some the answer is no, but according to Gazprom the answer is "Yes".

Turkish newspapers reported that Gazprom was very angry with the deal and informed BOTAS that, they will be unable to pump extra gas this year. This winter, Iran has cut the supplies to Turkey due to rising demand and this amount has been compensated by Gazprom by increasing the amount exported.

*Turkish newspapers reported that Gazprom was very angry with the deal and informed BOTAS that, they will be unable to pump extra gas this year. This winter, Iran has cut the supplies to Turkey due to rising demand and this amount has been compensated by Gazprom by increasing the amount exported.*

The message of Gazprom has been interpreted as a Russian anger toward Iran-Turkey agreement by some newspapers. But does Gazprom have obligations to pump as much as Turkey wants? No. Gazprom has informed BOTAS beforehand that, the favor done this winter will not be repeated.

Gazprom has no obligation to pump more than the agreed amount. But Iran's condition is getting worse. With subsidizing energy in the domestic market, Iran will be unable to stop rising demand. 14 gasoline stations have been torched after the price increases. This was a stern warning to government.



For this winter, Iran's demand will be higher than last year. So it will not be surprising to see a decrease in exports to Turkey by mid-December. The status of Iran's gas industry is also known by Russia. So this winter, they are well aware that Turkey will need extra capacity.

*About Iran, Turkey has very awful experiences with investments in Iran. A Turkish private entrepreneur's investment to Imam Humeyni Airport has been opened by the Iranian president at that time, Hatemi, and closed by the army in the same week in 2004.*

Turkey's winter peak demand (day) for gas is around 120 million cubic meters. Turkey's only gas storage facility is in Silivri with 1.9 billion cubic meters (bcm) which corresponds to around 16 days of supplies. Silivri's capacity will gradually increased to 3 bcm.

Turkey may not feel the effects of Gazprom's warning. Also compensation through LNG purchases may smooth possible crises.

About Iran, Turkey has very awful experiences with investments in Iran. A Turkish private entrepreneur's investment to Imam Humeyni Airport has been opened by the Iranian president at that time, Hatemi, and closed by the army in the same week in 2004. The call by the conservative media and Iran-Air have been influential in the process.

Turkcell, a Turkish cell phone operator has also bad experiences. Without giving any

reasons, Iran has excluded Turkcell from the bid. The process is now heading towards a multi million dollar arbitration.

So this time, what makes TPAO (Turkish Petroleum Organization) to trust Iranian investment sphere? This is a difficult question to answer but it is for sure that Turkey is trying to increase its energy security, also finding another gas source for Nabucco pipeline.

*So this time, what makes TPAO (Turkish Petroleum Organization) to trust Iranian investment sphere? This is a difficult question to answer but it is for sure that Turkey is trying to increase its energy security, also finding another gas source for Nabucco pipeline.*

But these reasons do not secure Iran's commitment in the "buy-back" agreement. Now there is a problem in the gas supply in Iran. But when the TPAO delivers the gas, the Turkish investment may well turn into a "foreign company milking Iranian resources" kind of event.

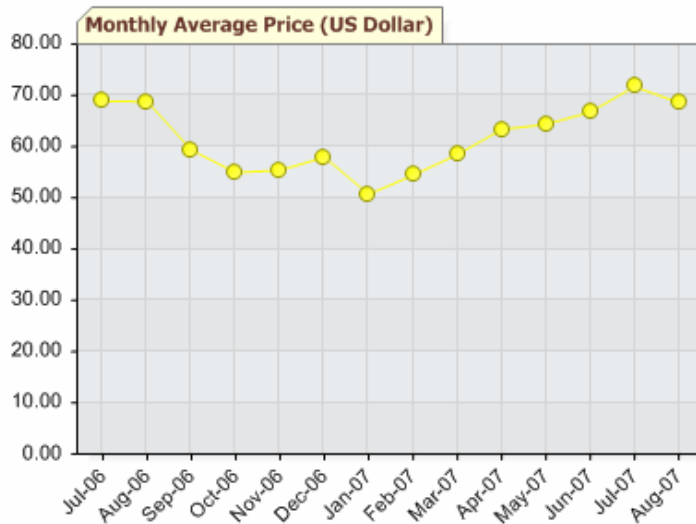
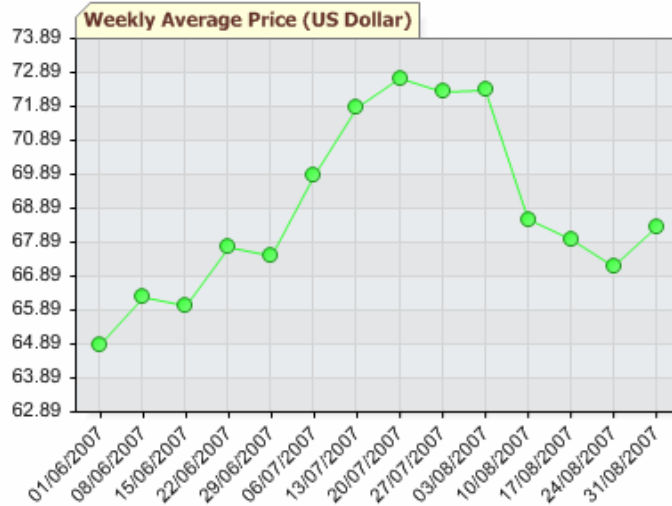
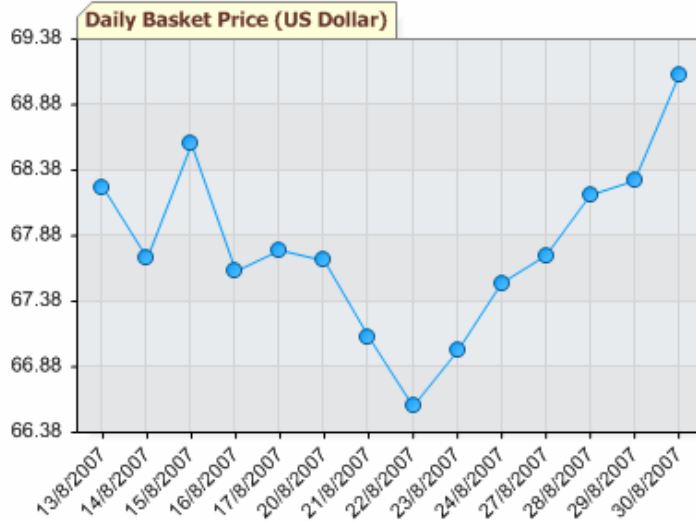
From the Russian view, the agreement is not only a blow to Russia's Europe strategy, but also a blow to securing Turkey as a market. Turkey and Russia are expected to extend their agreements before 2011. By then, if Iranian gas arrives, Turkey will have the tools to bargain Russians. However Russians have tools to bargain a "cartel" with Iran, if Iran can export any of the gas that is produced.

Therefore, a Turkish-Iranian agreement means nothing to those who know Iran. It is just another attempt to attract foreign investment for the Iranian government and a threat to national security by the conservative circles. For Russia it is a threat to European dominance as well as a sign for time to consider Iran.

Metin Gezen  
metingezen@gmail.com

## Indicators

### OPEC's Basket Price





## Indicators

---

Indicative Exchange Rates Announced at 15:30 on 31/08/2007 by the Central Bank of Turkey

CURRENCY		EXCHANGE RATES		EXC.RATES ON BANKNOTES	
		Buying	Selling	Buying	Selling
USD/TRY	1 US Dollar	1.2914	1.2976	1.2905	1.2995
EUR/TRY	1 EURO	1.7658	1.7743	1.7646	1.7770
GBP/TRY	1 British Pound	2.6055	2.6191	2.6037	2.6230