The Bosphorus Energy Club

Game-Changers in Energy, Investment and Geopolitics

27 June 2014 | Sait Halim Pasha Palace | Istanbul

www.bosphorusenergyclub.org
Building bridges and forging partnerships in energy

The Bosphorus Energy Club is an exclusive membership-only gathering of senior leaders and executives in energy, investment and geopolitics. It serves as a Track-II energy diplomacy channel as well as a discreet but powerful summit of the top decision-makers for regional issues and projects in Eurasia, the MENA, the Gulf, and Southeast Europe.

Honorary Chairman: Taner Yıldız, Minister of Energy and Natural Resources, Turkey

Executive Chair: Mehmet Öğütçü, Chairman, Global Resources Partnership, UK
Executive Summary

By

Mehmet Öğütçü
Chairman

In a Nutshell

1. The second meeting of The Bosphorus Energy Club took place at Sait Halim Pasha Palace on 27 June 2014, earlier than its usual annual meeting because of the critical recent developments in the region ranging from Russia’s annexation of Crimea and its energy-geopolitics implications in the Black Sea to how the future of oil hangs on Iraqi politics, from the narrow window of opportunity in the East Med gas to Turkey’s natural gas market liberalisation, from Iran’s anticipated re-engagement with the West to the next steps in the Southern Gas Corridor.

2. The meeting provided an opportunity to hear first-hand what’s happening in our region and how these developments will affect our government and business decisions.

3. The 27th June meeting hosted around 90 Club members and special guests including prime minister and ministerial level leaders, the event also benefited from insights offered by energy business executives, bankers, Think-Tanks and experts from China, Ukraine, Russia, Belgium, Switzerland, Italy, Iran, Kazakhstan, Azerbaijan, Egypt, Israel, the US, the UK, North Cyprus, Greece, Kosovo, and Yemen Bulgaria, Turkey and France.

4. Once again, the Club provided a privileged platform for substantive discussions, moderated in a free-wheeling and interactive manner by its Chair, while at the same time bringing together leading energy experts from around the world to promote a broad understanding of regional energy issues and chart future actions. There was also an extensive discussion on purpose-driven leadership in the new era and how to groom future leaders and executives in the region’s energy sector.

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1 Grateful for inputs to and review of the meeting notes by Gokcen Mete, Ahmet Evin, Jaroslav Kinach, Sila Uysal, Yeşim Gül, Murat Çolakoğlu and Vanessa Raine.
5. Dozens of bilateral government-to-government, government-to-business and business-to-business meetings (as well as exclusive media interviews) were arranged by the Club on the margins of the meeting. Of particular significance were the engagements with *inter alia*:

- TRNC Prime Minister Özkan Yorgancıoğlu,
- Yemen’s Deputy Prime Minister Abdullah Mohsen al-Akwa,
- Turkey’s Minister of Energy and Natural Resources Taner Yıldız,
- UK’s former Conservative Party Chairman (and 13th Marquess of Lothian) Michael Ancram,
- U.S. Deputy Energy Secretary Daniel B. Poneman,
- Former U.S. Assistant Secretary of State David Merkel,
- Greece’s former Minister of Economy and Finance Yannis Papantoniou,
- Kosova’s Minister of Economic Development Fadil Ismajli,
- Chevron’s Vice President of Europe, Eurasia and Middle East E&P Ian MacDonald,
- Schneider Electric’s Europe, Middle East and Africa President Franco Restelli,
- Gazprom’s Head of Pricing and Contract Structuring Department Sergey Komlev,
- ROSATOM’s Akkuyu NPP CEO Fuad Namikovich Akhundov,
- Norton Rose’s Partner Chris Brown,
- Egon Zehnder’s Head Andrew Roscoe,
- Strand Investment Partner’s Director Amin Ajami,
- Ukrainian Prime Minister’s former advisor Jaroslav Kinach.

6. According to Club rules, media were permitted only during the opening session for a photo opportunity. A briefing prior to the event was provided to select media members. Chatham House rules allowed for the discussion of some “taboo” and commercially/politically sensitive issues in a discreet manner.

7. The event photos, the list of speakers and discussants, publicly available documents and a list of media reports and TV interviews can be accessed via [www.bosphorusenergyclub.org](http://www.bosphorusenergyclub.org).
Executive Summary

- Energy, investment and geopolitics have never been so intertwined in recent history than they are in our region today. Despite a series of significant geopolitical tensions, oil prices have remained flat and indeed continued to decline as the markets are better prepared to deal with such risks and setbacks.

- The “Islamic State” (IS) spreading into Iraq and Syria represents a serious security risk to the whole region. It emanates from the ongoing frustration with both the Syrian and Iraqi leadership of Assad and al-Maliki (now resigned), and its intention is to create a viable Sunni State with sizeable energy, water resources and reliable infrastructure in place.

- A de facto disintegration of Iraq into Kurdish, Sunni and Shia portions is underway although hopes are not totally lost for a sui generis unity government. Turkey is set to remain a key force for making sure that hydrocarbon exports and regional security will benefit all Iraqis.

- Russia’s annexation of Crimea has upset the regional balance in CIS and the Black Sea and is now seen as part of a bigger game on the global scene. This has serious implications for the energy sector.

- In view of new supplies coming on-stream from elsewhere in 2017 and hub-based pricing being increasingly deployed, there will be further pressure on Russia to reduce gas prices and to stop leveraging energy as a weapon in its relations with its “near abroad” neighbours. The last is set to step up pressure on Russia.

- Iran’s re-engagement with the West and more conciliatory overtures will likely bring this nation out of isolation, thus creating new opportunities, competition and possible tensions in the region. We need to reconsider how to work with Iran on energy projects and develop new ways of collaborating, particularly in the post-sanctions era. Iran should follow suit.

- There will not be a rush of IOCs to Iran after the lifting or relaxing of the sanctions. Yet, the potential to increase oil and gas production and exports is immense–enough to call Iran a new “game-changer”. Nonetheless, the short-term implications for the region will be limited.

- Azerbaijan’s commitment to the Southern Corridor through Shah Deniz-II, TANAP and TAP investments and the significant FDI in Georgia, Turkey and Greece have planted the seeds of a lasting win-win partnership with its neighbours and Europe. SOCAR has emerged as a regional powerhouse in energy, investment and trade. There are still, however, risks to mitigate in this volatile region including for energy production, transportation and physical security.

- The Turkish government will continue to further liberalise its gas markets and prices, and will gradually phase out subsidies that distort the level-playing field in the highly attractive and rapidly growing Turkish gas market. Contract transfers from BOTAS are still on the agenda for traders who bring attractive deals from suppliers. The unbundling of the BOTAS operations is soon to be realized, with production, transmission and distribution being reorganized under separate corporate entities.

- Declining levels of investment in the energy sector contrast with the pressing need for the replenishment of supplies and the proliferation of infrastructure consistent with higher growth in energy demand. There is a need to tap into new unconventional sources of finance for new energy projects and to expand existing ones.

- The new generation of leaders in the energy sector is a scarce resource. There is a need to groom young executives, who innovative in their way of working and thinking. Companies and governments need front-runners with global mindsets and leadership skills who will reassess their strategies for retaining what they have, as well as developing a second line of leaders, particularly in the energy sector.
Actions

At the conclusion of The Club’s deliberations, it was agreed to take the following steps:

- Organise a members-only Club meeting in the autumn to discuss the future direction of the Club and its priorities;
- Focus on fresh sources of funding and investment for energy deals and projects at the Club’s next flagship meeting;
- Consider developing for an energy executive leadership programme tailored for members needs;
- Support Turkey’s hosting of the 10th G-20 heads of government summit in 2015, the next World Energy Council meeting in 2016 and the 22nd World Petroleum Congress in 2017, as per Minister Yildiz’s request; and
- Plan to convene one of the next meetings of The Club in Washington D.C., Moscow, Tehran, Athens, London, or possibly in a regional capital.
8. In a wide-ranging tour d’horizon, Turkish Minister of Energy and Natural Resources Taner Yildiz, who also acts as the honorary chairman of the Club, underlined that at no time in recent history has geopolitics and energy been so intertwined as they are today. He touched upon several hot topics in the region’s agenda of significance to Turkey, including the “Islamic State”’s advance, the energy deals with KRG and growing risks in Iraq, deepening tension in the Black Sea as well as on the prospects for further liberalisation of natural gas market and the phasing out of subsidies that distort the Turkish energy market.

9. Minister Yildiz underlined the government policy goal to increase volume and contract transfers for imports to the private sector upon expiry of the contracts signed between BOTAS and suppliers. In other words, the plan is to stimulate involvement of the private sector on a wholesale level for the new sources of gas such as from Turkmenistan, Iran, North Africa, and the US.

10. He cautioned, “We need to de-politicise and simplify energy, despite the fact that traditionally major energy projects and politics are greatly interlinked by nature”. It was indicated that a new draft law on natural gas market was currently in parliament but there has been a delay in passing it due to a congested parliamentary schedule. The unbundling of BOTAS was also on the agenda, with transmission to be left under the monopoly of BOTAS and gas trade to be further privatised. However, Iraqi gas from KRG would be imported in the initial stages by BOTAS due to legitimate strategic/political concerns.

11. As an integral part of his government’s policy, the Minister pointed out that he aspired to create and sustain a natural gas market operating without the involvement of the public sector. However, there are certain obstacles to overcome. For instance, during the first tender opened with Russia, the tender amount was limited to 4 bcm of Turkey’s request for more, as the contracting party Russia preferred to continue the existing contracts and it is not possible to unilaterally change the terms of the contracts².

12. The Minister also noted that the LNG contract for 4 bcm of Algerian gas was renewed by BOTAS instead of offering it to private traders as the markets were not interested and only allowed the trade of LNG with additional supplies by Nigeria (except for spot LNG from Qatar). As such, in reply to the Ministry’s invitation, there were no serious demands from the private sector to take initiative on LNG imports and take over the contracts. The Minister promised to accept any favourable private contracts that might be offered.

13. Minister Yildiz added that Turkey did not believe in wasteful subsidization of the prices but cautioned the need to sensitively handle transition to fully liberalised markets.

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2 Presently, BOTAS has contracts at around 50 billion cubic meters (bcm) irrespective. Already 20 percent (worth of 10 bcm) of Turkish natural gas imports are privatised and, should an agreement on the price be reached, an additional amount of 3 bcm of natural gas via the Blue Stream pipeline will also be imported by the private sector.
14. Gazprom representative argued that Gazprom’s acceptance of transfer of BOTAS contracts motivated Turkey’s natural gas market liberalization in the first place.

15. The Minister called for action in developing future talents and leaders in the energy sector at government and business levels, and their effective deployment for tackling complex energy challenges. He also asked The Club to actively support the organization of the upcoming critical energy events including the 10th G-20 heads of government summit in 2015, the next World Energy Council meeting in 2016 and the 22nd World Petroleum Congress in 2017.

**Troubling Insights on the Ukraine Crisis**

16. Recent events have heightened awareness of energy security in both Europe and Russia, with both parties seeking supply and demand diversification respectively. There was an expectation of a hot exchange of opinion between
Russian and Ukrainian special guests at the meeting. Yet the discussions proved to be cool-headed and business-like. Undoubtedly, what happened in Ukraine and the deepening crisis, which has unfolded in the Black Sea, has sent shockwaves throughout the whole region and ramifications will be far-reaching fort he future of energy trade, investment and geopolitics.

17. Following Russia’s annexation of the Crimean peninsula, Ukraine and Russia are involved not only in a political and security confrontation, but also in yet another natural gas pricing dispute. Russia cut-off sales to Ukraine amid unpaid gas bills. Fortunately, gas is still flowing through Ukraine to European markets. Ukraine’s low summer demand of approximately 1.7 bcm per month means it can fulfill its current demand via stored supplies and reverse flows from Europe. However, without Russian gas Ukraine will struggle to fulfill its winter demand of 7 bcm per month.

18. Russia is cognisant of its reliance on Ukraine as a transit country for its natural gas destined for European markets, and is pressing forward with its plan for a Gazprom-led transit by-pass South Stream pipeline, which in the view of Gazprom would contribute to European energy security. However, several speakers were skeptical about this plan’s feasibility, particularly because of the new sanctions and the strategic goals of the rival Southern Gas Corridor.

19. The EU has attempted to halt the project by calling bilateral agreements for renegotiations. Against this, Russia filed a complaint with the World Trade Organization to review EU’s allegedly discriminatory energy regulations. Naturally, these controversies will cause delays in the commencement of full-scale construction. In the meantime, Poland’s Prime Minister, Donald Tusk, (now appointed as the new European Council President) proposed a European Energy Union. Poland is concerned with the predominance of Russian supplies in European natural gas market. The proposed Union would establish market rules and create a framework for bilateral agreements.

20. In view of several discussants, it is important for the EU and U.S. to co-operate in order to mitigate the security risks posed by frozen conflicts in these countries and Russia’s recent actions in its “Near Abroad”.

21. The Free Trade Agreement that Ukraine signed with the EU may be a “game-changer” in the region, said a senior Ukrainian speaker at the meeting. He projects that it will reinforce a lot more transparency in the energy industry. In addition, the unbundling of Naftogaz will enable investors to serve the Ukrainian energy market better.

22. Russia’s intervention in Ukraine was seen as a blessing for its energy sector; otherwise Ukraine may not have had the opportunity to renew its aging infrastructure and decrease energy intensity. Now Ukraine is ready to institutionalise its gas transit system and move towards energy conservation and efficiency, even though this is unlikely to be as smooth as it sounds. Reverse-flow supplies from Slovakia, Poland and Hungary will not be sufficient for Ukraine due to limited available volumes. The question also arises on where else the needed volumes would come from and how Ukraine will pay for it.
23. The LNG option, widely debated by Kiev and Washington, is not readily available, as it requires building a receiving terminal in Odessa and convincing the Turks that LNG tankers will not add to the existing risks to the Bosphorus navigation and Istanbul’s environment.

**Southern Corridor received boost**

24. This crisis made clear to the EU that the finalisation of the Southern Corridor should be accelerated. In looking at options to link the Caspian with Europe, there was a suggestion to re-consider the crossing in the Caspian and opportunities in Shah Deniz II and to examine the potential of Iran as well as the prospects of Kazakhstan, Turkmenistan and Uzbekistan.

25. The partners of the BP-led consortium developing Shah Deniz are drawing up plans for the third development stage after 2025, expecting to reach peak output at about 25 bcm of gas per year. Shah Deniz is proving to be a lynchpin in Europe’s attempt to diversify its gas supplies away from Russian gas; Shah Deniz I has been pumping gas since 2006 and has an annual production capacity of about 10 bcm. From around 2019 Shah Deniz II is expected to produce 16 bcm, with 10 bcm earmarked for Europe and 6 bcm for Turkey.

26. The TANAP pipeline will have spare capacity to accommodate additional sources of gas other than Azerbaijani gas, which is foreseen in the associated intergovernmental agreements. Indeed, in June 2014, Azerbaijan and Turkmenistan agreed to discuss the prospect of bringing Turkmen gas on the shores of Azerbaijan, but it is easier said than done given Russia’s strong objection.

27. With the EU aiming to cut greenhouse gas emissions by 40 percent below 1990 levels by 2030, the continent will need more Russian gas - not less - in the coming decades, and any rupture in this mutually dependent relationship would be costly for both sides. The diplomatic row between Moscow and the West following the disputed Crimean referendum, fears over the growing unrest in eastern Ukraine and Gazprom’s threat to stop supplying gas to Ukraine have raised concerns that gas supplies to Europe could be interrupted, as they were in 2006-7 and 2009.
28. Turkey is likely to become a key beneficiary of these developments given that it has the relations and geography necessary to become a regional hub, and experience with Russia/Ukraine and Europe. Yet, Turkey needs to create a trustworthy, reliable and safe passage for investors, producers, shippers and consumers. In terms of infrastructure, there will be a need for pipelines and sufficient storage capacity (hence flexibility) and therefore a requirement for investors. Additionally, one Club member stressed the importance of establishing a regional Energy Stock Exchange to enable trade.

Russia’s gas price negotiations

29. The Russian speakers in the meeting insisted that, on natural gas that is the only commodity not priced by the demand but replacement value - if gas prices fall to levels below the current prices in the EU - there will be a significant gas deficit in the future. The Russian view is that oil linked prices will continue to dominate long-term supply contracts. The hub-prices are changing the balance of interest for buyers, but only an estimated 15 percent of natural gas contracts will be based on Henry-hub prices in the world.

30. Oil-linked pricing is seen as the only remedy for market failure in natural gas liberalisation. The justification for higher prices under long-term contracts is that there is a security of supply premium and flexibility, which is not provided by hubs. Also, the Russian perception does not support the idea that the hub prices as the market price reflect demand and supply balance as the market prices do.

31. Since 2010 there has been huge pressure for a price reduction by private traders importing Russian gas under their contracts with Gazprom. It was indicated that Italy’s Eni struck a landmark deal with Gazprom that abandons a 50-year old system of indexing gas supplies to oil prices, setting a precedent that other European buyers may be able to use in negotiations.\(^3\)

\(^3\) The agreement, signed in May 2014, sets an important change in the price-indexation mechanism in the contracts to align them fully with the spot market. Gazprom has for years defended oil-indexed gas sales as a cornerstone of its business, even while high costs relative to spot gas prices have forced its European clients to swallow multi-billion euro losses.
32. The backlash against oil-linked contracts has gained ground in recent years as waning demand for gas and economic recession across Europe has forced utilities to defend dwindling profit margins. Europe’s second-biggest gas producer, Statoil, was the first to offer its clients gas supplies fully priced according to spot market rates.

33. German utilities E.ON and RWE, Gazprom’s biggest customers (followed by Turkey), have spearheaded efforts to bring down Russian gas prices, although other suppliers such as Algeria continue to insist on oil-linked prices. The deal may also help Eni to put pressure on its other gas suppliers, Algeria and Libya, to convert to spot pricing. Eni renegotiated its contracts with Gazprom in 2013, securing a price cut estimated to be under seven percent.

34. Another dynamic was that Russian gas export activities have been liberalising, with Novatek and Rosneft gradually entering the market, but only on a specific project basis for the time being. The continuing liberalisation of the gas market in Russia and its gas pricing will have significant consequences for Russian exports to Europe (and potentially elsewhere), although requiring the major part of another decade to complete.

35. As Europeans contemplate significant changes in their own method of gas pricing, changes in the same direction in the Russian gas market (albeit on a longer time scale) could create new and different linkages between the markets. Notably, depending on the evolution of pricing in the different markets, Europe could find itself in competition for Russian gas supplies with the Russian domestic market as well as Asian and CIS markets.

36. On top of the initial 38 bcm of gas to China - or roughly one-fifth of Chinese gas demand last year -- the Power of Siberia deal will open the door for the supply of up to 22 bcm to a planned 15 million tonne per year from the LNG export terminal in Vladivostok on the Pacific coast. This would feed Japan, South Korea and China. Initially, Gazprom is eyeing a two-train project processing 10 million tonne starting 2018. The project, heavily supported by the Japanese, is ready to break ground once Beijing and Moscow seal the pipeline deal.

37. No doubt, Russia was caught off-guard by the sudden emergence of the US as a potential major LNG exporter. But Putin has since made it a priority to hasten the development of Russia’s LNG sector. Russia’s proposed export plants also lie close to North Asia. Cargoes can be shipped to Japan in less than 24 hours from Sakhalin, making the economics and flexibility of supply appealing. As a result, Russia could carve out much of the lucrative Asian market - the biggest in the world. Even with just getting Yamal to market, Russia has a big task, as new supplies from US and Australian projects should really start to ramp-up around 2018.

38. Deterioration of the relations between the West and Russia could still stymie Gazprom’s major export project, although the partners are moving ahead with development. The South Stream pipeline, which would carry Russian gas across the Black Sea to southern and central Europe, is strategically important for Gazprom. The new route would avoid transit through Ukraine, ensuring supplies to the company’s prized European market would not be affected by further friction between Kiev and Moscow.

39. In 2017, Turkey’s 30-year supply contract will expire with Russia. It was noted that the two countries had thus far a mutual understanding of this, obviating the need for arbitration, that negotiations were always settled bilaterally and amicably, and that both sides wanted gas trade to continue on the basis of mutual benefit.

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4 So far, Cheniere Energy’s 18-million t/y plant is only facility close to completion in the US, so Russia could yet gain the edge. (Sempra Energy, another hopeful US LNG exporter, recently received federal approval, meaning it can begin building its 12 million-t/y plant later this year. A total of seven LNG export proposals have been granted approval.)
The fate of East-Med Natural Gas

40. Ongoing political, diplomatic and corporate developments with regards to Eastern Mediterranean natural gas reserves are taking yet another turn, as presently we are seeing obvious signs of a shift in Israel’s policy towards Cyprus, Turkey and Egypt.

41. The prospects for a new LNG hub in the eastern Mediterranean are now dim. Instead, Israel looks likely to emerge at the centre of a regional pipeline network, using its abundant offshore gas reserves to build strategic and economic ties with its neighbours that were unthinkable just three years ago. Woodside Petroleum’s decision in May to scrap plans to buy a stake in the Noble Energy-led consortium developing the 540 bcm Leviathan field has killed -- for now -- the idea of an Israeli LNG export business.

42. Although it has signed an agreement with BG Group on the use of Egyptian LNG facilities, Tel Aviv has not entirely excluded the possibility of a pipeline eventually connecting Leviathan reserves to Turkey, seen certainly as the least expensive way for gas to flow into international markets. This would, however, contradict earlier statements and guarantees made by the Israeli Cabinet, both to Greek and Cypriot governments.

43. No doubt, Cyprus is one of the most active actors in the push to exploit the Eastern Mediterranean’s newfound energy potential. The country’s European backing and apparent willingness to explore production partnerships with nearly anyone has allowed Cyprus to etch out a reliable middle ground in the often-contentious energy environment. As countries of the region deal with conflicting claims over the regional and maritime resources, Cyprus appears content to extend them an olive branch.

44. Turkey does not recognise Cypruss’ EEZ agreements with Egypt, Lebanon, and Israel based on its claims to the part of the continental shelf in that area. The TRNC Prime Minister underlined that the de facto divided Cyprus cannot represent the interests of Northern Cyprus. Turkey has warned international oil companies, under the threat of exclusion from business operation in Turkey, not to conduct exploration and production activities in the disputed zones, under the threat of exclusion from the business operations in Turkey.

45. The reserves of Cyprus alone are not sufficient to justify massive investment. Delek announced a lower quantity than expected: reserves of approximately 4 trillion cubic feet, in the Aphrodite field a quantity almost half of the estimates made by mostly Cypriot officials. Accordingly, prospects for an eventual LNG terminal in the country have been reduced. The only hope of an LNG terminal in Cyprus would be through the injection of Israeli gas.

46. Although the long-standing Cyprus problem seems like a stumbling block for the development of natural gas reserves surrounding the Island, the TRNC Prime Minister remarked that this should rather be seen as an important opportunity and catalyst for a solution. He stated that any potential resolution of the Cyprus problem would positively contribute to economic development in both northern and southern Cyprus.

47. On a wider level Turkish diplomatic and corporate arguments in favour of the Israel-Turkish pipeline point to the resurrection of Nabucco West through the addition of Israeli and Azeri gas, along with possible new amounts of Iranian gas that would boost the capacity of Turkey to offer to countries such as Bulgaria, Romania, Hungary and Austria 30 to 40 bcm per year natural gas volumes. This would be a direct bid to oppose the ongoing plans of Gazprom to construct the South Stream project.

48. As the ongoing negotiations between Iran, the US and the EU unfold, the Israeli gas may not be necessary for a “Nabucco West” redux, since there is potentially more than enough of this commodity in the Iranian reserves for a decades long supply to certain EU states. If this is the case, the proposed East Med pipeline plan is also effectively scraped since no additional gas volumes will be needed until then.
49. Lebanon’s great offshore prospects should not be forgotten, and should emerge on the market in the mid-term. Should this be the case, a variety of scenarios could be formed that will include entities such as Hezbollah, the battered Assad regime and/or Saudi Arabia through various individual but influential local players.

50. As the window of opportunity is narrowing, Israel and Egypt have embarked now on finalising a natural gas deal. Energy collaboration is not new between these two countries; however, this time the natural gas flow will be in the opposite direction, from Israel to Egypt. Egypt is rich in natural gas, with 70 tcf in proven gas reserves, an amount that would have been sufficient to supply Egypt’s own gas needs for decades to come.

51. However, due to export commitments, an increased domestic consumption and stalled gas explorations, Egypt is now suffering from a natural gas crisis. Historically, Israel has been reliant on Egyptian gas to satisfy 40 percent of its domestic natural gas needs. Exporting to Egypt would allow Israel to use the Egyptian LNG terminal and avoid investing in its own LNG facility - a multi-billion dollar project. It is expected that the final agreement will be completed by the end of 2014. A final gas purchase and sales agreement will be negotiated and subject to regulatory approvals in Israel and Egypt.

52. In the meantime, the Club was told that despite the major operational challenges they face, international oil and gas companies with interests in Egypt have some cause for comfort. Egyptian authorities have promised that by 2017 Egypt will have fully paid its arrears, totaling an estimated $6 billion, owed to energy investors. Government efforts to boost state coffers without recourse to aid from the Gulf are also a cause for optimism.

Sykes-Picot Revisited?

53. There was unanimity of opinion that we were going through a pivotal moment in the history of the modern Middle East. Just three and a half years after the outbreak of the revolutions in Tunisia, Egypt, Syria, Libya, and elsewhere, nearly all of the 22 Arab states are worse off than before.

54. Egypt, the region’s keystone state, has gone from toppling Hosni Mubarak to overthrowing the democratically elected Muslim Brotherhood government, thereby executing a 360-degree return to authoritarian military rule. The Syrian civil war has grown so vicious that close to half of its 22 million people are homeless. Syria’s cancerous civil war has metastasised and now threatens Jordan, Lebanon, Iraq and Turkey.

55. The discussions covered wide ground. The IS is now taking root in parts of Iraq and Syria, due in part to experienced fighters, many of which are foreigners, weaponry, money, and ambitions, running roughly from the Syrian cities of ar-Raqqah and Deir ez-Zor on the Euphrates River in the west to the Iraqi cities of Mosul and Samarra on the Tigris River in the east.

56. The proclamation of a caliphate has shattered the comfortable setup of 1916, known as the Sykes-Picot agreement, and threatens to call into question the borders of modern-day states in the region. Some discussants argued that the IS was the product of a failed Assad regime, and his choice of violent repression over reform. It was also the product of Maliki’s steady build-up of a new authoritarian regime within the cloak of democracy in Iraq, and his steady increase and violent repression of Sunnis since the 2010 election.

Kurds going their own way?

57. The worst scenario is the collapse of the Iraqi national project combined with the Sunni Kurds attempting to establish an independent Kurdistan. IS has been consolidating its power over the Sunni Arabs in the so-called “Sunni triangle” while Baghdad and the Shia-dominated south have become a separate entity more vulnerable to influences from Iran and elsewhere.

58. There is fear that this nightmarish scenario will likely trigger multiple mini civil wars between Baghdad and Kurdistan, between Kurdistan and IS, and between Baghdad and the Sunni triangle/IS. This scenario would not only devastate Iraq, but also would have major ramifications in Syria, Jordan, Lebanon, Yemen, Saudi Arabia, Turkey and other countries in the region, altering both the geostrategic architecture of the Gulf and the political economy of the region.

5 An agreement was signed in 2005 stipulating that Egypt would supply Israel with 7 bcm of Egyptian natural gas every year for a 20-year period. The pipeline that carried natural gas from Egypt to Israel and Jordan across the Sinai desert was bombed at least 15 times, effectively cutting off supply at normal levels ever since the start of the revolution in Egypt. The disruptions forced Israel to import fuel products with a very high price tag prompting a severe increase in Israel’s energy bill and as a result a jump in electricity prices.

6 In a dramatic move to partially fix Egypt’s much criticised subsidies programme, the authorities increased petrol prices by between 40 and 80 percent (depending on the grade of fuel).
In addition to the Kurdish region, other provinces of Iraq – both Sunni and Shiite – would demand greater autonomy. The constitution currently allows for a “province” to evolve into a more powerful “region,” but the central government has sought to block or undermine efforts by Basra or other provinces to move in this direction.

The Kurds independently produce just shy of 300 kbd from fields in their autonomous region in northeast Iraq (but have the capacity to produce almost 500 kbd). In recent months, they have developed meaningful oil infrastructure, including a private export pipeline completed in December with 300 kbd of capacity. Despite Baghdad’s objections, this line has been operating since May, sending crude to Turkey’s segment of the Kirkuk-Ceyhan pipeline. Official estimates put recent flows at around 40 percent of the pipeline’s capacity.

It was indicated that the Kurds were in the process of establishing their ability to export their oil through Turkey – without the acquiescence of Baghdad. If successful, they will likely feel that they have grounds for a viable, independent Kurdistan, which many Kurds have held as a long-standing goal. This objective has taken on greater urgency as the relationship with Baghdad has deteriorated and as Iraq looks closer to collapse. At a minimum, the Kurds’ continued relationship with Iraq depends upon a number of political conditions being met, many of which relate to greater control over oil resources.

The KRG already enjoys good relations with Turkey, to the extent that the Kurdish authorities have been able to directly export their oil via a pipeline to Ceyhan. The KRG recently made an opportunistic move by taking control of Kirkuk, which is now the major center for Iraqi Kurds, and declared that it would “hold a referendum” on independence and be bound by its results. Although nothing can be taken for granted, an independent Kurdistan is no longer viewed just as a distant pipedream but will still depend on the international dynamics, loss of hope for a united Iraq and consent from its two major neighbours, Turkey and Iran.

**Future of Oil Hangs on Iraqi and Saudi Politics**

Surprisingly, the oil markets have not yet been significantly affected by recent developments in the region. In fact, a sharp increase in geopolitical tensions in the Middle East has so far barely caused a blip in oil prices, despite the fact that oil supply today is tight. Similarly, the conflict between Ukraine and Russia has reached a more dangerous level, with little oil price response.

However, the world fears that an oil crisis will occur if the security situation in oil-producing countries, especially in Iraq and Libya, does not improve. The sector is concerned and is expecting the suspension of the Iraqi oil supply at any time. If an Iraqi oil disaster occurs — especially if production allocated for export is halted — oil prices will easily hit an average of $130 per barrel and will only cease to fluctuate when Iraq regains calm and stability.
For Iraq, the real problem will arise on reaching the target of 10 million barrels by 2020, because it will become harder to attract $450 billion-investment required for such a production explosion.

65. With forecast output growth of 5 mbd, Iraq would become a cornerstone of global oil supply security over the next two decades, accounting for 45 percent of the world’s extra crude by 2035. Yet about a third of the country is now in the hands of IS, the Sunni Jihadists who want to create a caliphate stretching across northern and western Iraq and eastern Syria. IS, though, is not yet a threat to the Shia-dominated south of Iraq, home to the mega-oilfields that account for the bulk of Iraq’s output.

66. Even in the worst years of the 2006-2008 sectarian conflict, production edged upward. But with the political chaos in Baghdad and the risk of more sectarian strife, coupled with Iraq’s corruption and chronic bureaucratic problems, no one should pin their hopes on a doubling or tripling of the output from the country along the timetable predicted by the International Energy Agency (IEA).

67. The real problem will arise on reaching the target of 10 million barrels by 2020, because it will become harder to attract $450 billion-investment required for such a production explosion. At the present, Iraq’s treasury is almost empty and investment confidence is at the lowest point. There is need to regenerate this country’s policy on oil and gas exploration and production.

68. There is a concern about Saudi Arabia’s ability to deal with everything on its plate—a serious threat on its borders from Iraq and Syria, other geopolitical risks from Iran, Egypt and elsewhere, a high likelihood of a contentious leadership succession in the coming years, and the challenge of meeting the demands of a young and growing population while faced with the prospect of lower oil prices. Saudi Arabia will have hard time handling these risks without encountering instability of its own. From that perspective, a large oil disruption, while certainly not a likely scenario, cannot be ruled out.

69. Several speakers stressed that in the current context, Prime Minister Nouri al-Maliki (now resigned) played a key role in creating this crisis because of his authoritarian and sectarian ways of governance. Instead of bridging the divide, he is responsible for further division by acting as the head of a sectarian-led government as opposed to a national unity government.

70. Turkey’s policy towards Iraq has been criticised by some; however, Turkey feels confident that its endeavors to introduce a system of allocation of petroleum revenues between the KRG and Baghdad irrespective of the source of petroleum and in accordance with the ratio envisaged in the Iraqi constitution will be for the benefit of all Iraqis. In the view of the US, oil exports in Iraq should be decided at the federal level based on compromise.

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Iraqi crude represents about 4.4 percent of world production, or around 3.4 mbd. In recent years, most production has come from the south (about 85 percent), providing the majority of exports (around 90 percent) through the Basra terminal on the Persian Gulf. Northern Iraqi oil, mainly from the Kirkuk oilfield and others nearby, usually accounts for around 15 percent of total production (540,000 barrel a day).
71. If petroleum is produced in Kirkuk that is now under control of the Peshmerga, Turkey announced that it would transfer the crude oil to global markets, provided that the latter is allocated between the Iraqi people and in accordance with the Kirkuk-Yumurtalik Crude Oil Pipeline Agreement. The production can potentially reach to one million barrels and the agreement allows a capacity of up to one and a half million barrels.

**The US Response to Game Changers**

72. In the US, energy mix looked very different ten years ago. In 2004, coal made up 49 percent of America's net electricity generation, while renewables made up less than 1 percent. Today, coal generation is down 10 percent, and carbon-free sources including nuclear make up more than 25 percent of electricity generation. The rest is taken up by natural gas.

73. Since the 2000s, the U.S. has experienced a considerable increase in its natural gas production by around 24 trillion cubic feet per year. Its oil production is increasing at a rate of roughly 1 mbd and is expected to reach 9 mbd. This increase has already materialized profound economic benefits for the U.S. and is contributing to the stability of oil markets globally by decreasing price pressure and international oil insecurity.

74. The new chill with Russia and the chronic instability in the Mideast have caused the U.S. to be not only almost energy self-sufficient, but also the globe's emerging new energy superpower – indeed, it recently displaced Russia as the world's largest producer of natural gas and is expected to overtake Saudi Arabia and Russia as the world's top oil producer by as early as 2017.

75. The U.S. still possesses an astonishing total of about $128 trillion in “technically recoverable” oil and gas resources alone, amounting to eight times the national debt. Yet, even with greater domestic supply, the U.S. is still vulnerable to oil shocks as they affect trading partners and the global economy.

76. The cost of any potential imported LNG gas to Europe from the US would be higher than the price of pipeline gas to Europe from Russia. In the view of the US, revenues from oil and gas worldwide should be invested on new energy technologies, which are another game changer for a low carbon future in addition to being a source for energy efficiency and sustainability.

77. The US faces many difficult and dangerous challenges in responding to these events. President Obama is concerned to reestablish American influence in Iraq, which he had ignored after the withdrawal of American troops in 2011. The US has made it very clear that it would help Baghdad defeat IS if Iraqi politicians come together to form a
genuine national unity government. While the U.S. continues to deliberate over its next moves, others—Syria, Iran, Russia—have been filling the power vacuum in the region in ways that are not aligned with U.S. interests. Along with political pressure, more U.S. military assistance to Baghdad and the Kurds will give the U.S. political leverage when comes the time to help the Iraqis renegotiate their political compact. The US approach vis-à-vis independent KRG oil export seems to be changing.

Removal of Iranian sanctions

78. The new Iranian president Hassan Rouhani has opened a window of hope for easing tension between Iran and the West, improving Tehran’s deteriorating economic condition and replacing Ahmadinejad’s confrontational foreign policy with one of re-engagement with the world. If successful, this policy will generate positive ramifications for the energy security and investment opportunities across the region and the world at large.

79. There are already promising signs of tension de-escalation in Iranian foreign policy. For instance, Rouhani views good relations with Iran’s immediate neighbors, including Saudi Arabia, as his top foreign policy priority. Iranian and Saudi Arabian relations and cooperation to a large extent have derived from the noticeable role of Hashemi Rafsanjani, Iran’s former president and Rouhani’s ally. The Saudis and the Iranians have a shared interest in deescalating tensions. Rouhani’s decades of service within the national-security establishment puts him at an advantageous position from which to reduce tensions.

80. Restoring relations with the EU as a key global actor is another foreign policy priority under Rouhani. President Obama was said to be contemplating a historic Tehran visit before his term expires next year. He told that he was open to “a whole range of measures” if Iran would “show the international community that it is abiding by the international treaties and obligations.” As such, we are experiencing a major shift in terms of language and substance, which will beget a nuanced shift in terms of behaviour.

81. The emergence of Rouhani, especially in a time when the region is faced with different security and political challenges, can make the impossible possible if the international community recognises Iran’s security concerns and gives Iran a voice in a regional forum. It was highlighted that there was no solution to anything in the region without Iran.

82. Iran’s oil and gas industry will be the biggest beneficiary of a sanction-free regime. Oil revenues in Iran are above $100 billion annually, of which about $35 billion has been lost (according to Iran’s own accounting). Assuming the sanctions currently constricting Iran’s oil and gas sales are indeed lifted – which is by no means a safe assumption yet another of Tehran’s challenges will be to win back its former oil customers. The Iranians hope that a natural desire among refiners for diversity and security of supply will operate in Iran’s favour.

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8 Removing sanctions against Iran will actually be a more powerful tool to creating an internationally friendly Iran. If sanctions are removed and things progress, then Iran stands to become within a couple of decades, a new economic powerhouse and international friend in the Middle East.
83. One speaker argued that Iran could push the production of crude oil up to 3-3.5 mbd relatively quickly in about 180 days in the absence of international sanctions. Increasing production of crude oil much beyond that level would require greater flows of foreign investment and technology. It has been estimated that more than 3 years would be needed to increase crude oil production capacity when and if the sanctions are totally lifted.

84. Nearly 16 years on from the launch of Iran’s unloved buy-back contracts, once more, Tehran is preparing to spruce up commercial terms in a renewed bid to entice international oil companies back to develop oil and gas blocks - capitalising on the positive momentum injected by the P5+1 deal that envisages Iran scaling back its nuclear enrichment in return for a gradual relaxation of sanctions on the Islamic Republic. Optimism in Tehran is high. The political atmosphere is expected to be more supportive than the previous, and largely abortive attempt, to attract IOC interest in Iranian hydrocarbons.

85. Critical choices are to be made. The EU and US sanctions left Iran with no choice but to turn to the East, with results including contracts with Chinese firms to develop oil fields and phases at the giant South Pars gas project. Another beneficiary of the Iranian policy is Russian companies. Under the new administration, the Oil Ministry is pivoting from East to West. The past few years have been advantageous for Chinese companies doing business in Iran, with the oil industry offering the biggest opportunity of all. However, things might start getting tougher. China is likely to be the biggest loser in Iran’s new balance of power game in the energy and other sectors.

86. It is optimistic to say that there will be an immediate flood of investments despite the traditionally more promising business environment in Iran as opposed to Iraq, Malaysia or African countries. In Iran the era for Buy-Back contracts is over under the new Petroleum Act. Iran now needs expertise to increase production, particularly in South Pars, the biggest gas field in the world, of which the other side was already exploited by Qatar.

87. Iran seems to be serious about introducing incentives to attract investors. For this Iran should first focus on financial markets to allow foreign capital to enter into the country, and also explain its industry, regulatory structure and infrastructure to the investors and businessmen.

88. A senior Yemeni government minister in the meeting thought that the biggest problem for his country was Iran, which he alleged was supporting military movements in Yemen. Terrorism severely affects Yemen’s use of resources and investments and pipelines and electricity grids are regularly attacked. There are plans to build new power plants in more secure areas. The energy is not affordable for the Yemeni people. He also pointed to the fears in his country that the situation in Iraq could spread all over Middle East and the Gulf.

89. Turkey stands well positioned for reaping commercial benefits in the earlier stages of Iran’s sanctions-free or -relaxed regime, playing the go-between, financial intermediator and geographical bridge role in logistics and services. However, over the medium to longer term, Iran may consolidate its positions as an economic powerhouse and regional political/security arbiter at the expense of Turkey if Ankara does not start working on how to capitalise on its existing advantages and future win-win opportunities.
An Asian Pivot: China

90. China has no source of cheap natural gas, so it must push nuclear, as well as wind and solar, to reduce its coal consumption and air pollution. Nuclear power clearly trumps all other fuels including coal and natural gas when it comes to energy creation in terms of mega joules per kilogram. And if it weren’t for the safety issues surrounding uranium, there would be nothing stopping nuclear energy from becoming the world’s future power supply.

91. With the closing of the historic $400 billion Russia-China gas supply agreement over 30 years in May 2014, the geo-strategic era that commenced on Sept. 11, 2001, was superseded with a new and quite different global order. The deal will involve constructing more than 4,000 km of pipelines and developing gas fields in Eastern Siberia. Once complete, Russia will be able to supply China with 38 bcm of gas each year. The Russia-China deal is both a strategic and commercial agreement, with long term ramifications on international energy markets.

92. The deal itself is good news for China, which is expected to take more active role in the region following the withdrawal of the US. For its part, China locks in a long-term gas supply deal that will help to diversify its economy’s energy supplies with a cleaner burning fossil fuel. The deal is profitable for Russia, against the stagnation of demand in Europe and the fear of sanctions.

93. The Russian-Chinese gas deal shows that Moscow does not have to be dependent on the European market. This is the first step for Russia in delivering substantial gas supplies to Asian markets. The sectoral western sanctions against Russia i.e. unavailability of western technology & financing to develop these gas fields in Siberia will however affect this agreement, – which will threaten the contract foreseeing the supply of 38 bcm of gas annually to China.

94. With the ink still drying on a landmark gas trade contract, Russia is already pushing a second deal with China that would revive a proposal to build a pipeline from Russia’s West Siberia gas fields into northwestern China. Considering the pace of China’s economic growth and the agreed pricing formula it is very likely that the two countries will soon conclude a contract to build a western pipeline.

95. China has announced its second major natural gas price increase in as many years as the country moves ahead on reforms to bring domestic natural gas prices into line with international market prices. The National Development and Reform Commission said that starting 1 September wholesale prices for non-residential users will rise by 20.5 percent, around 0.4 Yuan ($0.06) per cubic metre9.

96. China’s proposal to push forward with another ambitious Free Trade Area of the Asia-Pacific has received a cold reception from the US, which is focused on a 12-country trade agreement known as the Trans-Pacific Partnership that excludes China. These steps come at a time when the EU is battered by the weight of the Eurosceptic public, as aptly illustrated by the European Parliament election results. At the same time, Iran is preparing for a new chapter in relations with Washington, and the Gulf nations are drifting toward China and India as their most valued clients for hydrocarbon exports.

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9 The price rise will only apply to existing supplies. The move will bring prices up to 2.35 Yuan/cm, equivalent to around $10.81 per 1,000 cubic feet. That is more than double US natural gas prices but still significantly lower than LNG in northeast Asia, an increasingly important price marker for China as it imports more LNG.
97. The Middle East at large is very important for the new strategy as China receives almost half a million barrels of oil per day from Saudi Arabia and even more so from Iraq, Iran and Sudan.

**Energy for reviving the US-Turkish partnership?**

98. Bilateral political ties are currently strained due to Ankara's leadership style and Washington's change of tact in response to Turkey's way of addressing regional and domestic issues in a manner considered rather problematic.

99. Yet, as a consequence of recent Russian-Chinese pronouncements, and given the significant developments taking place with the KRG, Iran, Ukraine, in the Black Sea and the eastern Mediterranean, the time has come for the U.S. and Turkey to re-calibrate their somewhat tense bilateral relationship within the context of these emerging geopolitical realities. Failure to do so will simply allow for the creation of a geopolitical vacuum that will be filled by other options, no less viable for Turkey.

100. Both nations are in different energy positions. While the U.S., world's number-one energy power, is driving toward energy independence, Turkey (the world's 17th largest economy and a major regional power) is an energy-deficit country, surrounded by a troubled neighbourhood and with excessive dependence on oil and gas imports.

101. Turks are not content only to be a simple “bridge” over which energy flows; they aspire to become a regional “hub” that has strategic overtones. Yet, being a regional energy hub means not just having pipelines crisscrossing one's territory. For Turkey to function as a trusted regional hub, it must be able to import enough gas to satisfy both domestic demand and any re-export commitments while at the same time putting the right legal framework, governance structure, pricing mechanism and sound infrastructure in place.

102. Ankara and Washington have divergent energy positions and geopolitical interests, and do not see eye-to-eye on critical developments in the region. In a changing world of energy and geopolitics, a mutually beneficial partnership, based on common energy and commercial interests as well as recent geopolitical concerns is still possible. A call for enhancing the Turkish-US energy partnership has been made with support from the Club and its members.

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10 The relationship between Ankara and Washington has never been smooth, shaped by a long list of troubles and disputes – the 1974 arms embargo, the constant threat of Armenian “genocide” resolutions, human rights and religious minority issues, the northern front against Saddam Hussein, Ankara's 2010 trilateral nuclear agreement with Brazil and Iran, the deterioration of Turkey-Israel relations since 2008 and the US opposition to the independent oil export pipelines out of KRG.

11 Energy is Turkey's economic security soft-belly. Concurrent with its economic expansion, Turkey's energy demand has risen from 24.4 million tons of oil equivalent (Mtoe) in 1973 to 114.1 Mtoe in 2011. According to the IEA, by 2030 that demand is expected to reach over 237 Mtoe.
Developments in Europe

103. Due to the shift of emphasis in the U.S. from the EU and the Middle East to the South Pacific the EU is recommended to defend its own energy interest and detach from excessive reliance on the U.S. One way to go would be to promote a more united EU in terms of energy policy, particularly following the events in Ukraine. However, currently the public opinion does not follow a more integrated approach and the situation might result in a split in the EU instead.

104. European markets will decide to be economically or politically driven vis-à-vis Russian gas and other energy security threats. In any case, it is not possible to fully replace the share of Russian gas in Europe’s energy mix. The anticipated flow of Iranian gas towards the EU in the future remains far from certainty and the US LNG will be initially prohibitively expensive. There is a perception that regulatory framework in the EU is not investor friendly; as such, it has a primary agenda on low carbon future, but the incentives are not commercially viable.

105. The move of Eastern Europe towards the EU and NATO was not easy for Russia. NATO has lost momentum/direction after disagreements among alliance members over the future direction and out-of-area responsibilities. The EU and NATO ought to make it clear that they have no intention to absorb new states from Eastern Europe into the Western Alliance. By the same token, Russia should commit itself that it will not pursue any further annexations such as that of Crimea. In this setting, a buffer zone should be created between the West and Russia.

106. An ambitious Transatlantic Trade and Investment Partnership could be worth €100 billion per year (an additional 0.5 percent of EU GDP). Although a trade deal, which negotiators hope to finalise in 2015, would probably scrap most of the remaining tariff barriers between the two blocs, the real value of an agreement would lie in harmonising regulation and sharing raw materials.

107. Including a chapter on energy in the TTIP deal is a key priority for EU officials. One of the most important claims of the EU is that Washington scraps its requirement to review whether exports are in the public interest before approving any foreign sales, “transforming any mandatory and non-automatic export licensing procedure into a process by which licenses for exports to the EU are granted automatically and expeditiously”.

108. However, exporting natural gas could push up prices for ordinary Americans and businesses that have benefited from a 50 percent fall in energy prices over the past five years, and U.S. negotiators have so far refused to drop their restrictions. The U.S. has also been hesitant to discuss a solution for U.S. export restrictions on natural gas and crude oil in the TTIP.

109. The South East Europe (SEE), is at cross roads for major energy transport opportunities in which Greece has an ambition to participate. To this end Greece is privatising and liberalising at an extremely fast rate as it seeks to capitalise on its new position and exploit its newly discovered reserves. The former Greek Minister of Economy and Finance called for a joint meeting in Athens to discuss regional energy investment opportunities and how to synchronize policies.
Also in the SEE, Kosovo, the newest and one of the smallest countries in the world, has the fifth biggest lignite reserves on earth—that about 14 billion tonnes that is primarily used for electricity production, which makes the country an electricity hub for the immediate region. The SEE region as well as Italy will rely on new interconnectors, yet new capacities are needed.

For this purpose, the meeting was told that now Albania producing electricity from hydro and Kosovo will build a joint electricity market, which will bring energy saving benefits, and form the first example of such practice in the SEE. The Kosovar Minister of Economic Development has called on the region’s investors to work together.

**Return of the Atomic Energy**

There’s no question that nuclear power got off to a good start. Nuclear power’s share in electricity generation quadrupled between 1973 and 1988. But it is also accurate to say that that share has been relatively flat for the better part of the last 26 years. And nuclear power has been on the decline since Japan’s Fukushima power plant melted down in 2011.

China is leading the pack back to nuclear electricity production. By the end of 2013, China had 17 nuclear plants on site, which generated a trivial 2 percent of the country’s power generation—but that amount is about to surge. Right now, China has 20 reactors under construction; not to mention the other 175 reactors either planned or proposed.

Clearly, developing reactors that could produce electricity from much safer fuel thorium would allow the utilization of cheap, safe, and abundant energy without causing environmental catastrophes and meltdowns like Three Mile Island, Chernobyl, and Fukushima.

The first talks on nuclear power in Turkey started in the 1960s. In 2010, Rosatom undertook the development and operation of the Akkuyu project under an intergovernmental agreement signed between Turkey and Russia. To date, there has been several educational and technological transitions that have affected this project. The total cost of the project is estimated to be around $20 billion and expected to be commissioned by 2023 with a fully installed capacity of 4,800 MW.

The Akkuyu project is financed by Russia ($3.7 billion as of next year), strategic investors (49 percent) and IFIs. Its most recent reactor, Ningde 2, fired up in January 2014, pushing the number of operational nuclear reactors in China to 20, with a combined net capacity of almost 17 GWe. By the end of 2014, there will be 30 reactors in China pushing out 27 GWe. In 2015, capacity is estimated to reach 36 GWe, with eight more reactors.
Finding new finance sources for energy projects

117. Energy demand will increase 58 percent over the next 25 years. Trillions will be spent to secure the world's energy supply over the next two decades and all sources are on the table. Oil, Natural Gas, Solar, Wind. Money will flow. The key message was: Follow the money trail.

118. The world energy industry needs around $37 trillion over the next two decades for new greenfield projects and to upgrade existing energy infrastructure. For Turkey, it was underlined that investment requirement is colossal – at least $150 billion over just the next decade in order to keep its growing energy economy fuelled and powered.

119. How will these projects be financed at a time when domestic sources of funding are dwindling, international conventional finance has become extremely difficult to attract, and political uncertainties and commercial risks abound both in Turkey and its immediate region?

120. Triple-digit oil prices, a renaissance of America’s natural gas and oil markets, constraints in renewables, climate change, the ongoing unrest in the Middle East and North Africa, and the tragic disaster of Fukushima, have all shown how vital energy policy, security and supply are to global energy. These factors are also the reasons why energy markets have changed beyond recognition.

121. Above-the-ground risks, complexity, and high costs are features of major capital energy projects. The implementation of Basel III will impact the ability of banks to lend. They will typically lean towards utility groups to provide long-term contracts. There are fewer participants willing to offer such lending. Traditional sources of finance for energy are in short supply.

122. The region is in need of massive energy finance. FDI inflows to Russia jumped in 2013 to $94 billion, making it the world’s third largest recipient of FDI for the first time ever – largely thanks to the acquisition by BP of 18.5 percent of Rosneft as part of Rosneft’s $57 billion acquisition of TNK-BP.

123. Baghdad is working with Iran to help it attract investment ahead of the possible lifting of sanctions. International energy companies are queuing up to win Iranian oil, gas, power and pipeline deals. The Kurdish Region of Iraq is on its way to becoming one of the major suppliers of oil and gas, but it is still constrained by Baghdad’s strong objection to sell its hydrocarbons independently via Turkey.

124. Another big energy investment in our region is the Southern Energy Corridor – all the way from upstream gas development through TANAP and TAP pipelines to the end-consumers. The total cost of the Shah Deniz Stage 2 and South Caucasus Pipeline expansion projects will be around $28 billion. Azerbaijan is likely to become Turkey’s largest FDI provider by 2018.

125. Some other big-ticket projects are the development of upstream gas infrastructure and pipelines in Turkmenistan, the reconstruction of Syria’s energy infrastructure, China’s energy Silk Road from Xinjiang to the Gulf and Turkey, the nuclear projects and shale gas discoveries in Turkey, as well as the Middle East/Gulf and southeastern Europe’s new steps in the energy market. The Eastern Mediterranean gas opportunities, particularly in Israel, Cyprus, Lebanon, Egypt and Turkey, open up vast investment prospects. In addition to these significant projects, the huge challenge of upgrading existing energy infrastructure before they become obsolete builds up.

126. There will also be a flurry of mergers and acquisitions in the energy space of our region including Turkey, KRG, Georgia and South East Europe, which will open the way for offers for assets or equities to investors at attractive and competitive prices.

127. Creating alternative funding models for this purpose is the way forward. There is an increasing focus on using the multilateral lenders. Not relying only on institutions, which have traditionally provided the bulk of financing in this sector such as the European and Japanese banks, we should also tap non-traditional investors, including insurance companies, pension funds, sovereign wealth funds, private equity and Islamic finance institutions.

128. Governments in the region should pave the way for investors to feel confident in a clear and stable framework, removing administrative barriers to investment, and aiming to create an energy fund of at least $50 billion to provide seed capital for energy entrepreneurs. Otherwise, the current uncertainties and risks are likely to lead to an investment hiatus, which would drive away long-term, patient investors.

129. The above topic will be the main theme for The Club’s autumn meeting.
Need for developing our new generation of business leaders

There is a serious gap in the quality of the energy sector’s executive leadership in both governments and corporations. Conventional qualities such as personal charisma, stature, and the power to mobilize people and get things done still matter; however, they are no longer enough in this new era.

As the world economy, business, technology and geopolitics have gone through a major power shift over the past decade, leaders need to not only adapt to these changes and to promote innovation, but also to grasp the opportunities they generate and mitigate effectively the multiple risks they create.

The demand for competent business leaders far outstrips supply – with the very rapid expansion of sectors like energy, retail, telecommunication and financial services. These sectors are pulling in “proven” business leaders from some other more traditional sectors that may find retention even harder.

New generational leaders think differently and are a scarce resource and they should be nurtured as such. They often have a completely different way of working from their older counterparts. They want flexible hours, more vacation time, and continuous training, and they utilise the technology to work efficiently, instead of staying late in the office to get everything done.

Organisations should be cautious of not focusing attention on their senior executives only, who are perhaps the most self-driven actors in the company already. The next layer of management requires more proactive mentoring, care, and nurturing.

Since a redistribution of wealth has not taken place – a new concept of capitalism should be developed – in which the companies should prioritise purpose rather than profit, which should be consequential. Companies that have lost the sense of purpose will vanish in time. A purpose driven company would know how to collaborate and have partners. The great leaders of the past were in service, humble, authentic, honest, and result-oriented. They understood the meaning of leadership, they were the leaders who could be trusted.

In 2020, 3 billion of the world’s 8 billion people will constitute the middle class. The digital revolution will change the way companies engage with consumers. Companies should stop dry marketing to consumers and start focusing on people’s needs instead. The challenge now is to adopt Capitalism 2.0., which aims at generating growth with potential for positive environmental effects and which delineates common features of future leaders.

Now it is time for companies to inspire young talents and not only by bonuses but by letting them take part in the projects and collaborate. We should hold them accountable and let them learn on the job. We should encourage young people to use both their brain & heart. Leaders should be trained to work across cultures and networking should be encouraged. The Club should take initiatives in this direction.
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CH no. 08484496 and HMRC ref no: 48587 00633

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