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Turkey poised to loosen TPAO's grip on oil and gas

Turkish law makers are preparing to make changes in a bid to attract more oil and gas exploration investment and to boost hydrocarbon reserves

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- Turkey remains highly dependent on imports for its rising oil and gas needs
- The new laws could create a fairer playing field for foreign upstream investors
- TPAO is looking to pair up with ExxonMobil to hunt for oil in neighbouring Kurdistan

Turkey is set to begin debating a draft of a new petroleum law that seeks to liberalise its hydrocarbon sector significantly, by luring foreign companies to explore for oil and gas and by bringing to an end the preferential treatment of state-run *Turkiye Petrolleri AO (TPAO)*.

The Turkish parliament will debate the law this week, despite opposing groups saying that it would leave TPAO excessively weakened.

The potential law reflects "Turkey's impatience to find out as quickly as possible whether it has serious oil and gas potential," said Berfu Aksoy, a petroleum lawyer at Aksoy Law Office in Ankara.

Sense of urgency

There is undeniably a growing urgency at work in Ankara, given that Turkey, which is the world's fastest-growing major economy after China, currently receives almost all its energy from abroad.

Turkey imported about 92% of the oil it consumed in 2011 and 98% of its natural gas, according to the US Energy

Information Administration (EIA).

In 2012, the oil and gas import bill came to US\$60 billion, comprising the main cause of its massive US\$47.5 billion current account deficit last year.

Oil production levels are relatively miniscule.

Even though Saudi Arabia and Turkey have an equal number of operating wells, the former produces 9 million bpd of oil a day, while Turkey produces 45,000 bpd, Energy Minister Taner Yildiz told Haberturk television on May 21.

Just 20% of onshore areas and 3% of offshore Turkey have been explored, and the country's shale gas potential is still unknown, the Energy Ministry has said.

Turkey now wants to accelerate the pace of exploration after Israel and Cyprus having reported major gas discoveries in Mediterranean waters in the past three years.

It is also making efforts to access more resources from neighbouring Kurdistan.

Yildiz said during a debate on the petroleum law in Parliament in March

that the government was considering privatising TPAO, which holds two thirds of all licences and the entirety of rights to offshore drilling.

New law

The proposed new law seeks to encourage foreign explorers by allowing them to compete with TPAO on an equal footing, making the sector more competitive.

In 2007, a previous bill aimed at attracting foreign explorers was vetoed by the then-president Ahmet Necdet Sezer on the grounds that it forsook the national interest.

The current bill has the support of the ruling Justice and Development Party and is likely to pass with minimal changes, according to a May 10 note from Eurasia Group analysts Naz Masraff, Will Pearson and Elena McGovern. The bill no longer defines TPAO as the national company charged with searching and drilling for oil and gas reserves, and also ends the practice under the existing 1954 law of giving licences to TPAO without auctions when terms expire. ►►

Although it would remain up to the Turkish Cabinet to decide who gets offshore licences, operators also would no longer have to partner with TPAO for every offshore licence.

“Major oil companies want to see the potential for commercial oil and gas before entering the Turkish market,” said Aksoy, quoted on May 22 in a Bloomberg newswire.

This said that the potential new bill would ease rules for hiring foreign workers, extend licence periods and cut the top tax on profit from 55% to 40%, according to a draft of the legislation. The bill also incorporates a requirement for licence-holders to post a 2% bond for onshore programmes or 1% for offshore programmes, which market observers believe will weed out the more speculative applications for licences.

Private sector

The new law would replace an outdated 1954 law.

It “offers terms more in line with international norms to encourage private sector exploration,” the analysts at Eurasia Group said.

“Companies like Petrobras, Statoil, BP and Chevron, which previously showed interest in the Turkish energy sector, may revisit their interest,” the note predicted.

Current partners of TPAO include Shell, which has agreed to drill in the Mediterranean this year and Black Sea in 2014, Shell’s deputy exploration manager Coskun Namoglu told an oil conference in Ankara last month.

“We have made an agreement with Shell, which is right now working in Diyarbakir” in southeastern Turkey on shale gas, Yildiz told Haberturk.

“We are open to proposals to work on shale gas both from local and foreign investors,” he said.

According to the Turkish government, Chevron will also start Black Sea drilling with TPAO in the coming years.

However, Masraff at Eurasia Group stressed that the new law would not guarantee investment.

“We’ve seen lots of large companies coming in and exploring, like Exxon and Petrobras,” she told Bloomberg in an interview in Ankara on May 21.

“They’ve all left with nothing, so the legal change, in and of itself, is not enough.”

Impact on TPAO

Opposition groups have said the new draft makes TPAO, which would no longer have any special privileges over other exploration companies, a weaker organisation.

A previous limitation on the number of licensees per region has been completely removed in the draft law.

“TPAO will compete in the future tenders like other companies, and lose its privileges as a state-run company if the draft is accepted,” said a sectoral participant on May 24, quoted by Hurriyet Daily News (HDN).

“TPAO had already lost its refinery and station networks due to the privatisations in previous years and could now only fulfil exploration and operating activities. This will most

probably make it much less competitive abroad,” he added.

In disagreement was Selami İncedalci, general manager of Turkey’s General Directorate of Petroleum Affairs, to which the draft law gives many administrative and technical supervision responsibilities.

“The new draft law on petroleum affairs does not leave TPAO a weaker organisation. In contrast, it could get many more licences for oil and gas exploration and drilling,” he said to HDN.

Kurdistan push

With life seemingly set to get harder in Turkey, TPAO is acting through its Turkish Petroleum International Company (TPIC) subsidiary to expand its scope in Kurdistan.

HDN reported on May 22 that TPIC was negotiating terms of co-operation with the US major Chevron for joint energy sector activity in a venture that may involve the construction of oil and gas pipelines from Iraqi Kurdistan to Turkey.

TPIC has already signed an agreement with ExxonMobil to establish a joint venture to explore for oil in Iraqi Kurdistan.

Notwithstanding the tensions over Kurdish oil that have set the Kurdish administration in northern Iraq and Baghdad at loggerheads, the move by TPIC represents an area into which TPAO can feasibly expand if its interests on home territory are to be squeezed by the new law. ■



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