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Turkey Oil and Gas & Gas Report Q4 2012

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Abstracts

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BMI View: Proving up Black Sea and Mediterranean deposits is a priority for Turkey, as this will enable it to reduce its dependence on imported fuel, particularly from Russia where pricing disputes are the order of the day. Turkey remains part of the gas transit equation, which gives it extra negotiating power when it comes to purchase agreements.

The main trends and developments we highlight for Turkey's oil and gas sector are:

Demand for gas will rise quickly as household and industrial use spreads, and additional gas-fired power stations are built. We are assuming 46.24bn cubic metres (bcm) of Turkish consumption by 2016. Practically all of this gas will be imported, although national oil company (NOC) Türkiye Petrolleri Anonim Ortakl??? (TPAO)'s recent exploration success in the Black Sea could mean there are risks to the upside in terms of domestic supply, and risk to the downside in terms of imports.

TPAO believes the Turkish sector of the Black sea holds oil and gas reserves of 10bn bbl and 1,500bcm, respectively. The company announced it will invest US$4bn in the Black Sea over the 2011-2013 period. The area is being explored by JVs between ExxonMobil, Chevron, Petrobras and TPAO. The ministry has announced it is aiming for commercial production in either 2015 or 2016. TPAO said in July 2011 that it intended to drill up to five ultra-deepwater Black Sea exploration wells by end-2012.

So far, all this investment has yielded little in the way of commercial reserves, and concerns that the Black Sea's prospectivity may be overrated have affected the Russian section: Chevron abandoned its Russian Black Sea block in June 2011. However, the 42-84bcm deepwater gas discovery made by Austria's OMV and Exxon in Romania's sector (and announced on February 22 2012) suggests potential prospectivity in the region is not to be dismissed.

Beyond the Black Sea, Turkey is also considering exploration in the booming Eastern Mediterranean upstream, particularly for gas. On November 23 2011, Royal Dutch Shell signed a deal with TPAO to search for offshore oil and gas in the Mediterranean and onshore in the country's south-east region. Prior to that, TPAO announced it was planning to re-enter a Mediterranean well abandoned by ExxonMobil in the 1980s, where it believes there could be as much as 25mn barrels (bbl) of oil. Energy Minister Taner Yildiz said in February 2012 that about 10 international companies had made applications to undertake exploration off Mersin. Citing unnamed Energy Ministry officials, Bloomberg reported that companies interested in Turkey’s Eastern Mediterranean frontier included BP, Total, Chevron, ConocoPhillips, Genel Energy, OMV, Perenco and RWE.

Turkey’s stance in the Mediterranean is increasingly assertive. The country’s relationship with Israel has deteriorated and it has opposed drilling plans off Cyprus as it has yet to formally reach an agreement over the sovereignty and maritime borders of the island-state. Turkey has threatened to place military vessels in the Mediterranean Sea to impede what it considers to be provocative exploration. Ankara also approved in May 2012 TPAO’s plans to explore six offshore areas to the north, west and east of Cyprus and the NOC started drilling an onshore site near the town of Trikomo in April 2012. The long feud between Greece and Turkey over maritime borders could exacerbate diplomatic tensions in the region in case of exploration in the Aegean.

Our forecasts suggest that Turkish oil consumption will rise to more than 711,000 barrels per day (b/d) by 2016. Oil imports are likely to top 655,000b/d by this point, with domestic crude and gas liquids supply of an estimated 56,000b/d.

The cost of oil imports is expected to reach US$22.29bn by 2016, with a gas bill of US$20.61bn for that year. The combined oil and gas import costs for 2016 are therefore put at US$42.90bn.

Russia's gas export monopoly Gazprom said on October 2 2011 that Turkey's state-run pipeline operator Bota? had chosen not to renew its long-term gas supply contract. The deal, originally signed in 1986, expired in December 2011. Bota? had purchased 6bcm annually from Gazprom under the agreement. Other Turkish buyers are expected to take Russian gas, thus continuing the trade between the two countries.

In October 2011, the Turkish government announced that it had reached a transit deal for gas from Azerbaijan's BP-operated Shah Deniz field, although energy officials provided few details. For nearly two years, both sides have talked about a deal that would see as much as 10bcm transported from the Shah Deniz field and through transit networks in Turkey. In June 2012, Ankara and Baku signed a binding inter-governmental agreement for the construction of the 16bcm Trans Anatolian Pipeline (TANAP).

Azeri state energy company SOCAR said that BP, Statoil and Total were interested in taking part in TANAP and that it might offer part of its 80% share in the project to these companies. However, SOCAR Chairman Rovnag Abdullayev said his company 'will remain as the main shareholder, leader and operator of this project'. Turkey's state-owned TPAO and Bota? own the remaining 20% of TANAP. Costs are estimated to be US$7bn and the pipeline is planned to start operations in 2018.

Turkey's dependence on oil prices leads to high volatility in the country's energy bill. Our assumptions of tight supply due to booming demand in emerging markets is clearly a risk for the country. As a result, we forecast OPEC basket oil prices to remain elevated and average US$107.05 per barrel (bbl) in 2012, a figure similar to the 2011 average of US$107.52/bbl in 2012.

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