

## STOCEXPO SPEECH

I am honored to have been invited to speak in front of such a distinguished audience and I would like to thank stockexpo organization for this opportunity. I think this is an excellent opportunity to develop and review the market and developments in the regional oil and petrochemical sector, with a particular emphasis on storage trends and capacity in Turkey and use Ceyhan as their hub.

My name is Mehmet Habbab; I am Chairman of Delta Petrol in Turkey. Delta is involved in oil distribution, bio-fuels, logistics and trade and covers a region spanning from the Mediterranean to the Arab Gulf, and has the largest independent oil terminal in the Med, situated in Ceyhan, Turkey with a capacity of 650,000 tons, and another one in Poti, Georgia on the Black Sea with a capacity of 120,000 tons.

## TURKEY, THE NEW CRUDE HUB

Turkey is a dynamic and growing economy at the center of Eurasian landscape surrounded by Europe, Asia and the Middle East. Turkey is the 16<sup>th</sup> largest economy of the world and the 6<sup>th</sup> largest of the EU with a GNP of about 700 billion Dollars. It is at the crossroads from Central Asia, the Middle–East and Europe. The population is slightly over 70 million, in 2007. It has a large number of young, educated and skilled workforces. About 40% of the population is below the age of 29 offering young, dynamic and skilled labour force.

Turkey's geographical location is ideal from rich energy supply points; we have borders with Iraq and Iran and are close distance away from Russia and Caspian countries. Distances are short and freight advantages are incurred. We can travel from Turkey to Lebanon in five hours by car, six hours to Amman, etc. So you can see the importance of Turkey to the area. We have a highly developed port handling systems, truck transportations, but lack rail links.

Today foreign partners are coming to Turkey because Turkey presents an investor friendly environment with close to USD 20 billion of foreign direct investment capital

records recently. They benefit from the Turkish infrastructure, young population and proximity to prosperous markets. They bring much needed financing which is rare and expensive in Turkey, bring technology and know-how.

Turkey is an active market for oil consumption - the total market size is close to 30 million tonnes and half of the demand is in diesel and gasoline consumption. The market has grown consistently in single digit figures and has offered multiple opportunities for the development of the distribution market.

In the current superheated global energy market, with oil's price rising more than five-fold since 2000, the race is on worldwide to bring more crude to market, with many previously moribund pipeline projects being dusted off.

Turkey being a stable country politically and with leadership qualities regionally can act as the strategic oil stockholder for many countries in the region and further afield. Countries that need to hold strategic stocks outside their borders but in a stable country will use Ceyhan as a hub and can have immediate access for their needs.

Tankers transiting the Turkish Straits now carry 120 million tons of crude oil annually. As the Bosphorus bisects Istanbul, one of Europe's largest cities with a population of 11.8 million, and narrows in places to less than a half-mile, municipal authorities are against the potential consequences of a tankers congestion. Without TAPCO, tanker traffic is expected to exceed 250 million tons in the next decade, while analysts predict tanker traffic in the Turkish Straits would drop by 50 percent when TAPCO becomes operational. Hence, the efforts to introduce a new pipeline to carry Caspian crude is highly needed and strategically supported.

Ceyhan in Southeast Turkey is slowly becoming the new oil hub in the Mediterranean and will with time exceed the capacity of Rotterdam which is in the north sea. My main focus today is on Ceyhan and the role it will play in the years of 2010 – 2025. I believe that Ceyhan is set to become a new oil hub for the eastern Med. and will serve as a transit point for oil coming from the Black Sea, Central Asia and the Middle East.

The Ceyhan area with a population of close to 500,000 today is estimated to grow to 3 million people by 2025. A large infra-structure is planned for the area covering ship building and servicing installations, automotive factories, steel plants, fertilizer plants, petrochemical production facilities, etc. the area itself will boom and will be in need of oil for local consumption.

The opportunities are really immense. Ceyhan, I believe will be the new quotation point in the East Med where cargoes will be priced.

The expected oil flow in Ceyhan is as follows;

- The Iraqi pipeline when fully operational has a capacity of 80 million tons per year.
- The BTC pipeline's present capacity is 50 million per year going up to 80 million in 2011 / 2012.
- The new Samsun (or Ünye) line (TAPCO) being constructed by Çalık group in conjunction with ENI and will have a capacity of 60 million tons.
- The Nabucco gas pipeline will have a capacity of 35 million tons.
- Also under study is an Iran - Ceyhan pipeline with a capacity of 60 – 80 million tons.
- Another line will be a Ceyhan – Haifa line with a 10 million ton capacity.

All these projects will probably come to life in 2010 – 2015 and Ceyhan will be a center to receive and ship something like 250 – 300 million tons per year. Apart from the crude line, there are 2 – 3 refineries planned for the area in the same period each with a capacity of 6 – 10 million tons per year.

That is why I say Ceyhan is the new Rotterdam of the years to come. Trade between companies in the area will flourish. Iraq is our next door neighbor and will both import and export oil via Turkey for the foreseeable future. Syria, Greece, Egypt, Lebanon, Israel, Cyprus will all use Ceyhan as a hub. cargoes coming out of the Black Sea will discharge in Ceyhan and from there the goods will move to neighboring areas. Goods will be collected here for further shipments to the North Sea, U.S. Gulf, Arab Gulf, etc. provided we have the capacity to service large vessels with better port infrastructures. Fuel coming from Latin America in large size can discharge in Ceyhan and then shipped in smaller lots to ports in the Med.

## THE FUTURE ROTTERDAM –TURKEY

What made Rotterdam a Rotterdam is:

-The ease of in and out regulations, investment incentive plans, and master land development and land allocation plan, in Turkey, we need quick reforms.

Vessels coming in and going out must enjoy a reformed transit regulation procedure. So that quick turn around is possible allowing vessels to complete discharge or loadings in 24 -36 hours will add efficiency to the system. This requires reforms in the custom procedures and the regulations. Currently, Turkey is spending more time on regulation of the local market conditions than developing the transit business regime, whereby facilitating customs procedures, land planning, port rehabilitation issues are dealt as secondary priority.

The formation of the Energy Regulatory Body (EMRA) has enabled the emergence of a well defined energy policy and control mechanisms as well as streamlining licensing requirements. New regulations have been introduced to cope with the needs of the nation, for example, the introduction of compulsory inventory stock holding has increased the need for storage space need in the country. Distribution companies are now obligated to hold storage for 20 days and refineries for about 40 days of its total yearly sales. Companies are now focusing on optimising stock holdings and infrastructure companies are offering new services to distribution companies as a result.

Rotterdam in order to handle 200 millions a year has a storage capacity 27 million tons. Turkey or Ceyhan who plans to handled 300 million tons per year by 2015 latest will have to have a capacity of about 40 millions of storage. The capacity of Ceyhan today including Delta, BTC, Botaş and others are total 3 million tons only.

The difference between Rotterdam and Ceyhan is that The Dutch government prepares the land and the infrastructure and all investors have to do is to build their installation based on this available infrastructure. In Ceyhan, such a master plan is not ready therefore investors must start from scratch, locate the land, agree with the municipality for land zoning, get the licences from the local authorities and Ankara, apply for building permits to numerous ministries before they can start construction

and land development. This process is a minimum 1 to 3 years as local bureaucratic steps need to be satisfied prior to engagement in investments. That is why a local partner is a plus factor as has been the case with many international consortiums formed in the different sectors. Such local partners are able to understand the system, guide internationals and satisfy local regulations and requirements while exercising diligent work, patience and deal with local red tape. A good example is the case of Carrefour in Turkish retail market. When Carrefour entered the Turkish retail market for the first time, it had difficulty setting up its network and faced problems in spreading their business to the various regions. After their partnership with Sabancı Group of Turkey, they had a big growth period and had become a dominant player in the present Turkish retail market.

By 2015 the Ceyhan area will be handling an estimated 450 million tons of cargo to include liquid and dry bulk, containers, etc. This is a huge increase in number of ships that will be calling to the area. Bunker business in the area will also flourish as we expect the market for bunkers in 2015 to be over 5 million tons per year due to the thousands of vessels that will call in the area. Ship maintenance and servicing areas would be in demand to attract to service the already calling vessels to the area. Port developments and port services become key to competitiveness.

As Turkey gains importance in the global energy and oil trade, the Ceyhan region is becoming key for storage operators, especially Delta Petrol, currently building the Mediterranean's largest independent terminal. Delta Petrol is one of the example companies in this area with activities in storage business for over 25 years. At Ceyhan, Delta has just completed a large expansion project from 300,000m<sup>3</sup> to 650,000m<sup>3</sup>, in 2008. To strengthen the demand for long haul voyages and international oil trade hub vision, Delta will build a full jetty structure at Ceyhan to accommodate vessels up to 165,000dwt, which is targeted to be completed by end 2009 / beg 2010.

Delta has secured the financing for the investment of the project, which amounts to an estimated \$100 million (€75 million) partially through the IFC which is a subsidiary of the World Bank and the balance was provided by internal funding and equity of the Delta Group.

I do not want to boast about Delta and the Group, but its success is due to the fact that it is customer oriented and likes to meet almost all demands of its customer in terms of service thereby giving the customers a world class service. Delta is an efficient and reliable partner in the region and builds on long-term relationships wherever it can. Furthermore, our teams of professionals are committed to fairness which is our motto. We always try to come up with fair solutions so that we limit conflict and build confidence. Innovation and visions is another of our trait. We saw the need of storage in the Ceyhan area, the need for large vessels and with our vision we built for the future which is 5 to 10 years down the road from the time we conceived the idea.

Today the terminalling business is undergoing a major change. In the past you needed a tank for gasoline another for gas oil and another say for fuel oil. Today there is a large number of products in need of segregated storage such as gasoline with 95 Octane, 98 Octane, 100 plus Octane, Gas oil again needs many segregated tanks for 0,5 material, 0,2 material, 50PP etc. Therefore the need for more tanks is evident to service different streams for specialized uses, shipping is becoming expensive and larger cargoes must be handled to save on freight. Mixing and blending will be the main services of the future storage. You will need to prepare products for given markets and be able to ship them in flexible parcels.

Today, Turkey is ideally positioned to benefit from the development of oil and gas energy in the region. Turkey has devised a good macro plan to make itself a main transit hub center in the oil market and Delta Petrol demonstrated its belief in this plan by executing an investment plan to back it. Now, Turkey needs to undertake to prepare the grounds for infrastructure investments, such as incentivizing investors, precipitate investment permits and licenses, reforming customs and transit regulations which is currently a top priority to facilitate operations and investments in the area, land acquisition and planning reforms to make the area available for land development and interconnectivity of the developing infrastructure. Turkey is competing with many regional countries in this regard and has to take on the challenge to advance on these fronts quickly as such large energy investments will not wait too long to find other alternatives if faced with difficulty or with burdensome bureaucracy.

In conclusion, we came here not to talk but to make contacts. These kinds of conferences give us the opportunity to meet new business people, generate new ideas and build on relationships. This is what makes this conference a plus.

I tell my professionals always to go out and make contacts meet people and new businesses, learn of their needs, their expectations and so on and then build on that.