

PIPELINES

INTERNATIONAL

ISSUE 31 | MARCH 2017



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Turkey's long road to becoming an oil and gas hub

Managing Associate Ozan Karaduman and Associate Direnç Bada of Istanbul-based law firm Gün + Partners examine Turkey's journey towards becoming an oil and gas hub.

Turkey is not a large producer of oil and natural gas resources. Its oil and gas production is minimal when compared to its hydrocarbon-rich neighbours such as Azerbaijan, Russia, Iraq, and Iran. Yet, it still has a specific advantage: it is located between these oil-rich countries and the highly industrialised and developed western economies, which are large oil and natural gas consumers.

Currently, crude oil and natural gas are carried via land pipelines to Turkey from Russia, Azerbaijan, Iraq, and Iran. Crude oil is then transferred to oil tankers at the oil pipelines' terminals, destined for refineries in Turkey or abroad. Natural gas is mostly fed into the

country's national transmission infrastructure for domestic consumption. In exceptional circumstances, it is also possible to transport crude oil via road or rail.

This article will focus on the transportation of oil and natural gas out of Turkey by pipelines, and on Turkey's efforts to develop the pipeline projects to become an energy hub in the region.

LEGAL FRAMEWORK AND PROJECTS

The main legislation in Turkey relating to the transportation of oil and natural gas through pipelines is the Law on Transit Pass of Oil through Pipelines of 23 June 2000, numbered

4586 (also known as the 'Pipeline Law'). The Oil Market Law of 4 December 2013, numbered 5015, and the Natural Gas Market Law of 18 April 2001, numbered 4646, are also relevant as these laws regulate the transmission and transportation of oil and natural gas within Turkey.

Finally, the Decree on Transportation of the Crude Oil and Jet Fuel via Road or Railway published in the Official Gazette on 11 November 2011, is of importance as it prohibits the import, export and transit of oil via roads and railways unless a specific permit is obtained for such actions. Such a permit is obtained from the Ministry of Customs and Trade (MCT), and only

in cases where the importation, exportation, or transit of oil via roads or railways is beneficial to the interests of Turkey.

In addition to the exceptional cases of transport by road and rail described above, oil and natural gas can be transported by sea. However, pipeline projects are the preferred means of transportation as they have the ability to transport larger amounts of oil or gas, reduce the risks involved, and ensure better accountability. Although this type of project requires considerable sums of capital, it is nonetheless the economically favourable method, overall.

The Pipeline Law establishes the principles regarding the local part of the pipeline project, such as how the expropriation will be made, how the security of the pipeline will be maintained, and whether or not insurance for third-party liability is required etc. Although the Pipeline Law aims to regulate the main principles and procedures for pipeline projects, for many issues it leaves room for the regulations of international treaties signed (or to be signed) for the construction and operation of such pipeline

projects. In this respect, the Pipeline Law is realistic as international pipelines are the result of long-lasting, thorough, negotiations and carefully written international agreements.

CURRENT EFFORTS

An international pipeline project is never solely commercial: it is a political project wrapped in a commercial package. It may create political advantages for the parties to the project, while disadvantages for the parties are left out.

Turkey is trying to balance its disadvantage due to lack of fossil-fuel resources with its geostrategic importance for the pipeline projects. In addition to the current oil and gas pipelines, Turkey has been in negotiations for a number of important pipeline projects. The negotiations for the Nabucco project that did not bear any fruit, the TANAP project, and the current negotiations for the Turkish Stream project with Russia – which restarted after President Erdogan's visit to President Putin – demonstrate Turkey's willingness to become a crossing point for oil and gas pipelines.

It is not an easy venture. In addition to considerable amounts of funds, pipeline projects also require stability in foreign and local politics. A brief look into the relationship between Turkey and Russia would show this fact clearly; Russia and Turkey started to talk about the Turkish Stream again only after the tension between the two states decreased. Even negotiating a pipeline project requires good and strong relations between the relevant states.

Currently, Turkey is neither a corridor nor a hub for oil and gas. Its legislation does not offer a challenge: the legislation allows and facilitates international pipeline projects. The country has the perfect geographical location to become the crossing point for the pipelines. The challenges lie elsewhere, namely in stability of foreign and local politics, and finding the necessary financial resources.

The turmoil in the Middle East, and the involvement of various states in the situation, is not promising for the pipeline projects. However, Turkey will continue to try to overcome these challenges to achieve its goal. **P**



Although Turkey's oil and gas production is minimal, its position between hydrocarbon-rich nations and western economies points to a strong future for pipelines in the country.



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