



MEHMET SEPİL

Genel Enerji, a member of Turkey's giant industrial and service conglomerate Çukurova, is one of the early movers in the Kurdistan Region of Iraq. Developing the Taq Taq field through TTOPCO, its joint venture with Swiss independent Addax, Genel Enerji was recently awarded a 25 percent stake in Heritage's Miran licence, in addition to a 25 percent interest in DNO's Tawke licence and 40 percent in the Duhok licence. The company is now poised to become one of the largest producers in the region.

The Oil & Gas Year: *You are a sector pioneer in the Kurdistan Region of Iraq. How did you get interested in the region and what drew your attention to oil and gas as you were not originally from the industry?*

Mehmet SEPİL: My background is in construction and I started working in the Kurdistan Region in 2000, on several construction projects mostly related to infrastructure. I had been invited to work in the region by Mr. Talabani and Dr. Barham Salih and while I was there I was asked whether I was interested in the Taq Taq project. At the time Taq Taq was a reputable asset and probably the only one in the Kurdistan Region of Iraq producing oil, albeit a minimal quantity. This crude was being refined in Sulaymaniyah Refinery. When I decided to get a group together for the Taq Taq project I was already a partner of Turkey's Çukurova group. Over time we stopped working on construction projects as I decided to concentrate on oil assets and activities.

TOGY: *How has the Kurdistan Region changed in the time you have been working there, in infrastructural and also in social and economic terms?*

MS: The difference between 2000 when I first went there and today, 2009, is simply incredible. The airports, roads, buildings and complexes are a world apart from 2000. In the last six months the electricity situation has also seen a massive improvement. More importantly, the KRG has signed Production Sharing Contracts (PSC) with a large number of small- and medium sized international oil companies. All those E&P projects have a big chance to discover commercial quantities of hydrocarbons. Through those projects the region and Iraq will receive considerable investment.

From the beginning we were welcomed as an investor. The region really needed investment and good companies that could work there. Even before Mr. Barzani and Mr. Talabani united the KRG we were welcomed. Socially, the region has made

Exemplifying Leadership

TOGY talks to

**Mehmet SEPİL, Partner
TAQ TAQ OPERATING COMPANY
(TTOPCO), and CEO, GENEL ENERJİ**

great progress in recent years and is beginning to open up to the world. Economic development has also progressed and compared to the rate of development in the rest of Iraq that is really remarkable. Of course it is not easy – there are many challenges, and I wouldn't say that everything has been perfectly planned, but the region has made significant progress. I'm glad we invested in the Kurdistan Region of Iraq and I've never had any regrets.

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TOGY: *Your company entered a ground-breaking acquisition deal with Heritage, creating a potential regional giant. What are the synergies that will be making of the future HeritaGE a leading player in its field?*

MS: Genel and Heritage signed a MOU to enter a merger process. Nowadays, the negotiations have been going on to conclude this process, hopefully by end September. If this deal is successfully completed following our negotiations, then a regional giant oil company will be formed. In the new organisation (HeritaGE Oil Plc would be the new name of the merged company), Genel will have 50 percent, Heritage 50 percent and both sides will have equal directors. I will become CEO of the new organisation. Genel has got a lot of operational experiences and valuable assets in the Kurdistan Region of Iraq. Heritage has considerable E&P experience and particularly valuable assets in Uganda. The current strategy is to first develop the assets in the Kurdistan Re-

gion to generate cash and further develop Ugandan assets. In short there would be two core location, Northern Iraq and Uganda. Then further investment will be made for the rest of the assets.

TOGY: *A newcomer E&P Turkish company that built its success through operation in the Kurdish region of Iraq, is now being bought by a Canadian-British company, forming a global E&P leader. Do you feel you are making history for Turkey, the region and working towards peace and stability?*

MS: As stated above, the new company will form a regional/global E&P company of around 5.5-6.0 billion value and listed on the FTSE 100 index in London. This would be another achievement for our group after Turkcell listed in New York. We believe that this development will be a historic success story for Genel/Çukurova Group, and will help stability and peace in the region. Having this sort of role is really important for Iraq, KRG and Turkey and also other neighboring countries.

TOGY: *As part of the prominent Turkish group Çukurova, did working in the Kurdistan Region present political difficulties?*

MS: We never had any objections from Turkey. Being part of Çukurova Group, we had to declare everything we did to our government and to the relevant authorities. That doesn't mean we had to ask permission, but we were very open and were always encouraged to work and invest in the region. I think that the Turkish government sees closer economic links as a way to reduce political tensions. Following direct contacts and ongoing bilateral discussions between Turkish and KRG authorities, we are pleased to see constructive political developments to promote relations. In this context, our investment is one vehicle for improved economic and political relations.

TOGY: *Does the Çukurova Group want to further its investment in the region, for instance in its flagship telecommunication activity?*

MS: Now that we have this investment in the oil industry of the Kurdistan Region of Iraq, we are also thinking about investing in other sectors as well. Some of other companies in the group are already involved in the area. We are, for instance selling a lot of Çukurova generator sets, fork lifts, construction equipment and all necessary spare parts to Northern Iraq. We are also talking about the possibility of investing in GSM: Turkcell was interested in obtaining an operator licence in Iraq. That didn't happen, but we are still looking for some other opportunities.

TOGY: *Your Taq Taq operation is being held up as an example of how to do things in the Kurdistan Region. You came in as a pioneer, since at the time only you, Petoil and DNO were doing work on the ground, and yet you achieved a remarkably quick development. What challenges did you face in the process?*

MS: The main practical difficulty was getting companies and people to work in the region. For example, we found that we couldn't get a rig



Taq Taq is one of the most prolific fields of the region's early development.

over there in late 2005. No company would bring their own rig into the Kurdistan Region because they couldn't get insurance and in the end we had to buy our own rig. To get personnel for our operations on the ground, we first had to convince them that the security situation was acceptable. But once we had arranged the right security measures and got insurance policies in place, life became better for us. In the last two years we have not faced major problems. There are now a number of service companies working in the region and I don't feel that finding human resources is a major hurdle anymore.

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A particular challenge for Genel Enerji was that, although we are part of a very big group in Turkey, we were new to this industry when we started. So learning the business was a big challenge for us. Now we can really get to grips with this activity: As Genel, we are a partnership in TTOPCO Operating Company (Genel 55 percent, Addax 45 percent) conducting all petroleum operations at Taq Taq and Kewa Chirmila blocks in the Kurdistan Region of Iraq and we are confident that we can carry out the similar operations anywhere else in the world. Knowing that we started as a company in 2002 and that we now fully trust our abilities to work worldwide is probably the biggest pleasure I have today.

TOGY: *How important to the success of the Taq Taq development was your relation with Addax, and what have you learned from working with a part-*



United we stand: Addax Petroleum's and Genel Enerji's TTOPCO joint venture is poised to become the region's largest producer.

ner with a wealth of operating experience, in particular in West Africa?

MS: We chose to partner with Addax Petroleum because they are indeed a firm with a lot of international experience, mainly in West Africa. We knew we would have a lot to learn from them and we explained that to them at the start. Of course, we had many offers from various international companies willing to be partners but we wanted to retain the project operatorship. Therefore, we refused oil companies who only wanted to be operators without our involvement. In the end, we had the asset so we controlled the game and Addax accepted our terms. While we learned a lot from Addax, we also had a lot of assistance from Turkey's Petroleum Corporation (TPAO), which is Turkey's big petroleum school. Private oil companies never developed in Turkey, for several reasons, and that meant we had plenty of human resources we could use. All we had to do was bring together the resources and the international participants. Genel Enerji's goal is to avoid being a Turkish-dominated company. Of course we are a Turkish company and we have many Turkish engineers but we are trying to be an international company and to do that we need to have a lot of international expertise and experienced personnel in our organisation.

TOGY: *We understand that you have applied a segmentation strategy for your service contracts, working with the suppliers and service companies who offer the cutting edge in their fields. Can you tell us more about this approach?*

MS: This is yet another thing we learned from Addax, as a mid-sized company that likes to work like a major. In mid-sized companies there are two styles of work: work like a major and get the best service offer available or try and focus on cost control and look for the cheapest offer available. We realised that the former is the right way to work and we developed the philosophy that we need to bring the best guys to work in the

field. That doesn't mean it must always be a major service company but it should be the best company available for the work. Working this way can be more expensive but we believe that it reduces the time to complete the operation. We are very pleased to have successful operational results in Taq Taq so far due to above-mentioned strategies and performance. We believe that we are one of the most successful operators in the Kurdistan Region.

TOGY: *You brought a lot of new service players into the region that developed alongside your operations. Is it important to you to also develop local capabilities and encourage the birth of a service industry in the Kurdistan Region?*

MS: I think it is the most important thing. I cannot say that we have been 100 percent successful but we believe that remarkable contribution and improvements have been achieved so far. We have been working hard to develop local capability in many different ways. We are working with universities; we are working closely with the KRG; we are running various training programmes for locals and we are working with the Ministry of Natural Resources to find the right locals to work on our projects. We will have to be patient but we are taking the right steps. In a few years I think we will be enjoying the fruits of those efforts. I think that 80 percent of the engineers that work on our projects ought to be locals.

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TOGY: *As an early entrant, you've benefited from Baghdad's recognition of your PSC. The rest of the sector has been less lucky and to date Baghdad doesn't recognise their contracts. How can this tug of war between Baghdad and the KRG be resolved?*

MS: When we started work on Taq Taq we had a lot of meetings with the Ministry of Oil in Baghdad and signed a Memorandum Of Understanding in November 2004. From 2002 to 2004, we were discussing how to develop the field. But then things broke down and today they are dividing the companies into "before the constitution" and "after the constitution" with us having the advantage of being early entrants. However, I believe in the reality of business life. Iraq needs oil so if we or the newcomers can produce oil, it will go into the Kirkuk-Ceyhan pipeline. I'm therefore not scared for the other companies that invested in the region. Iraq needs oil and the KRG has no objection to sending the revenues to Baghdad. It is all but inevitable that whoever manages to produce oil will be able to sell it through the Iraqi Central government.

Far from being afraid for the newcomers it makes me feel more comfortable that there are more investors in the region. And I am sure that they and the whole of Iraq will benefit from any oil produced in northern Iraq.

TOGY: *What is the current status of your export infrastructure?*

MS: Since June 1st, 2009, we commenced trucking Taq Taq crude oil from a TLS (Tanker Loading Station) to the Khurmala station. Our crude is pumped into the Khurmala-Awana Pipeline and further into the Kirkuk-Yumurtalik main export pipeline. Trucking is just a temporary crude oil export option that the Central Government and the KRG agreed on. Nowadays, we are working on connecting a tie-in pipeline from Taq Taq to the Kirkuk-Ceyhan Main Export Pipeline. On the other hand, we completed a 40,000 bopd capacity processing facility and truck loading system (TLS) and its capacity will expand to 70,000 bopd by November 2009 once the EPF phase II is completed.

TOGY: *You have formed the Taq Taq Production and Refining Company (TTPRC) to handle your refinery project. Can you tell The Oil and Gas Year about the strategic planning behind this project?*

MS: The KRG decided that they want to have a 60,000 bopd of refinery capacity just 10 kilometres from our Taq Taq operations site. We have increased the initial proposed capacity from 20,000 to 60,000 bpd and we will be constructing this refinery in phases. We are also interested in exploring other downstream projects. Petrochemical plants are long-term projects and we are always interested in the long term. The current financial crisis has a negative effect on investment in the region, which is regrettable, but we think that it

will give us more room for new projects and we are determined to invest more.

TOGY: *Taq Taq has been a spectacular development and is a brand name for success in the region. You have just spudded your first well in the Kewa Chirmila block. What do you expect from this licence?*

MS: Kewa Chirmila is a pure exploration block. Based on the seismic results we have high hopes of finding oil, condensate or gas. It is like any other exploration; we hope it will be successful.

TOGY: *What have you learned from your operations in Kurdistan that was immediately applicable to your other ventures, whether it's in South America or in other parts of the world?*

MS: One thing is the advantage of cultural identity. Being a Turkish company helps us deal with Middle East culture and will probably also help us in future dealings with the CIS culture too. But if we really want to prove ourselves, we must look at further oil projects and prospects. So we have been looking at many new opportunities. Recently, we have signed a Partnership Agreement with TPIC (Turkish Petroleum International Co; TPAO Subsidiary) in a gas prone concession in Colombia, South America. We are evaluating some other potential E&P opportunities and prospects such as:

1. Pure exploration blocks like Kewa Chirmila;
2. Partially discovered but not commercially assessed and not developed assets like Taq Taq to appraise and develop or any other feasible projects in the other fields of petroleum sector.

We have three strategies to obtain new acreages and E&P projects. The first, partly driven by the financial constraints on today's international business world, is to simply buy the assets we want. The second is to look for existing concessions where we could come in as a partner. And the third is, of course, to follow and join bidding rounds for new projects in the targeted geographic locations.

TOGY: *Many companies followed your lead, looked at the example of Taq Taq and found it inspiring. As a Turkish company, do you see Genel Enerji as a role-model for others in the region?*

MS: Of course. It is a great source of excitement to be in the Kurdish Region and to be developing good relations with the Kurds on a daily basis. It is a real pleasure. I also feel that Turkish businessmen should have been involved in upstream and downstream oil projects long ago. So I strongly believe that Genel Enerji is paving the way for Turkish companies to play a more significant role in the region and in the world. I sincerely believe that we will be successful and that in the future there might be even more successful Turkish companies in the Kurdistan Region of Iraq which will further contribute to the region's development. But I also think that the next step is to find local partners and to work in partnership in the region.

Committed to a brighter future: TTOPCO'S nursery in Koya

