

Interview Selahattin Hakman

'We need foreign companies to invest in our energy sector'

Turkey's primary energy consumption is expanding fast. To meet this growing demand, investments in the production of energy are needed of \$130 billion till 2020. This will give many Turkish and foreign companies a chance to have a share of this market, says engineer Selahattin Hakman, President of the Energy Group of the Turkish Sabanci Holding.

The Bluestream gas pipeline near Samsun. Photo: Mustafa Ozer/AFP



| by Marc Guillet

Demand for electricity in Turkey has increased rapidly, largely due to the fast growth of industry and population. The country's thirst for electricity is growing by 8% a year. This presents a problem because Turkey has limited indigenous energy sources and has to import 62% of its primary energy to meet its needs. Annual energy imports exceeded \$30 billion in 2007. To increase the production and efficiency of the energy sector, Turkey has decided to liberalise the electricity and gas markets. This is part of the economic reform program of 2000/2001 that was developed with the support of the IMF.

A new regulatory authority for the energy market, the Bureau of Privatization Management (ÖİB), is responsible for the licensing of the energy production. The ÖİB wants to make sure that there will be a transparent process in which both Turkish and foreign private companies can invest in energy production. Distribution and transmission will also partly be privatized. Legislation for the liberalisation was finally concluded last year.

Minister of Energy Hilmi Güler predicts that 2008 'will be the busiest and the most colourful year in the Turkey's Republic's entire energy history'. Selahattin Hakman, President of the Energy Group of the Sabanci Holding, shares the enthusiasm and urgency of the minister. '2008 needs to be the busiest year. If you consider the energy supply situation in Turkey we need to take considerable steps to be able to meet not only this year's demand but also the future's demand of electricity in the country. This is a very big challenge, not only on the power side, but on the gas supply side as well. Iran stopped the export of gas for several weeks this winter. On that front too there are many things that need to be done.'

Most valuable |

Sabanci Holding, established in 1967, wants to play a leading role in the privatised energy sector. It is very well placed to play such a role as the company is the second largest industrial conglomerate of Turkey after the Koç Holding. It has 70 companies, 10 joint ventures and a workforce of 53,400 employees in twelve countries. Turnover in 2007 was \$15.6 billion. At the end of 2006, Sabanci's Akbank not only ranked as Turkey's most valuable company but also was the most profitable private sector bank. Last year, Akbank's market capitalisation stood at \$17.4 billion, making it the most valuable company on the Istanbul Stock Exchange.

Sabanci established its Enerjisa Power Generating Company in 1996 and as of May 2007, Enerjisa has been jointly owned and controlled by Sabanci Holding and Österreichische Elektrizitätswirtschafts-Aktiengesellschaft (Verbund). President Hakman points out that Enerjisa has several projects to contribute to the energy supply in Turkey. 'We decided in 2005 that energy – especially power – would be one of the main growth fields for the Sabanci Holding. The total generation of Enerjisa is 455MW at the moment. Enerjisa is the owner and operator of four natural gas power plants in Canakkale, Adana, Mersin and Kocaeli, and four hydroelectric power plants that are located in Antalya, Kahramanmaraş and Mersin. Our target for

power generation is 5000MW by 2015. In the last 18 months we have developed many new projects. We obtained licences for a licence for a lignite fired power plant, a 920MW gas fired power plant in Bandirma and ten hydropower plants that total 950MW. Together we aim to achieve at least a 10% share in the Turkish electricity market.'

Nuclear plants are very competitive sources for producing energy in the long run

Is your company limiting itself to the generation of energy?

'No, we want to be a vertically integrated player in the market. Enerjisa is looking to participate in gas distribution grid sell-offs in 2008. We are trying to further develop our trading activities. In order to do so, we also need to see a further opening up of the Turkish energy market, further deregulation and a decrease in the state share in the power generation. We are waiting for the privatisation of the distribution companies. That will lead to the growing appetite of investors. We need not only Turkish but also foreign companies to invest in our fast expanding energy sector.'

One of the projects that has attracted attention was the decision by the government at the end of 2007 to build three nuclear power plants. Sabanci is one of the main competitors to build at least one of them. The first one should be up and running in 2014. Isn't that way too optimistic?

'If you look at the Turkish energy mix, I do really believe that nuclear power has to be part of the mix. Nuclear energy, however, definitely is not a solution for the short- or mid-term power supply problems of Turkey. In order to get all the necessary design, environmental and construction licences for a nuclear plant, as well as the time it would take for the financing of such a large project to come through, it will be at least three or four years before construction can. Even with an accelerated construction period of five years you should expect a nuclear power plant to come into operation not earlier than in 2017 or 2018.'

The first nuclear power plant will be built at Akkuyu, a controversial location on the eastern Mediterranean coast near Mersin. An earlier plan was dropped in 2000 amidst financial difficulties and protests from environmentalists in Turkey, Greece and Cyprus because of the danger of earthquakes in the area. What has changed since then?

'The project was not halted because of environmental concerns. It is safe to build there. I am not an expert on earthquakes, but even in earthquake zones, such as Japan, it is safe to build as long as you take the necessary precautions.'

Are these Turkish nuclear plants also a reaction to the ambitious nuclear program of neighbour Iran?

'Turkey wants nuclear power to enjoy the benefit of producing energy: no more, no less. A nuclear power facility will give us some stability and sustainability because it would not be dependent on the fuel price peaks. You can calculate all the costs from the first day you go into operation, so it would be a stabilising factor in the energy prices for Turkey. This is one issue. Secondly, it is part of the strategy of fuel diversification. Turkey is highly dependent on energy imports. Diversification of sources and fuels is crucial for our energy security. Besides that, nuclear plants are very competitive sources for producing energy in the long run.'

Turkey's ambition since the 1990s has been to develop itself as an energy corridor for oil and gas to Europe. The Baku-Tblisi-Ceyhan (BTC) oil pipeline that began operation in June 2006 was the first success in this respect. Are you convinced that the politicians are doing enough to realize this strategic goal?

'It has been a common denominator of all Turkish governments to establish such a corridor and become an energy hub. They are committed to work towards this goal. There are setbacks, there are problems because it is not an easy goal to achieve. But there is a consensus among politicians and entrepreneurs that this is something that Turkey should not give up.'

Do you think that the growing importance of Turkey as a transit country for energy to Europe will have a positive effect on the access negotiations with the European Union?

'I think, and I firmly believe, that any further development of the economic relations and cooperation on strategic issues like securing energy sources will bring Turkey closer to the EU. And it will bring the EU closer to Turkey. That's why we support developments like Turkey as an energy corridor.'

The 3,300km proposed Nabucco pipeline, an EU project which would bring gas from the Caspian region to Europe via Turkey, is seen by the Turkish authorities as a trump card in its EU bid. How realistic is the Nabucco project?

'Of course there are many strategic, political and also tactical issues involved. But I am positive that there will be solutions

developed by all the stakeholders involved. One of the big concerns is whether enough gas can be supplied by Azerbaijan, which will be the principal source for the Nabucco pipeline, at least in the first phase. At the moment, Azerbaijan has the closest source for feeding the pipeline. We know, however, that there are other sources. There are huge gas resources east and north of Turkey, such as in Iraq, Iran, Kazakhstan, Uzbekistan and Turkmenistan.'

There is mounting concern in Brussels about Ankara's commitment to the Nabucco project. Turkey has failed to agree on a pricing framework for the use of the pipeline and for political reasons Turkey is resisting Gaz de France joining the Nabucco project. Are you positive that these problems can be overcome?

'I don't know the details of the negotiations that are being held. But if something makes sense for economic and strategic reasons it will be done in one way or another. Of course there might be some disagreement on how to share the cake and who will take what part of it, but the cake will be eaten.'

In July 2007 Turkey signed a memorandum of understanding to use Iran as a transit route for Turkmen gas and to develop Iran's South Pars gas field to facilitate the transport of gas to Europe. The Bush administration strongly objects to the agreement between its NATO ally Turkey and the Islamic Republic. Will Turkey finalise the deal with its neighbour anyway?

'We are Iran's neighbour. The oldest border we have is with Iran. We have been living peacefully as neighbours for almost 300 years now. And it is quite normal that we develop economic and other relations with Iran. On the other hand, Turkey is not untouched by international political problems related to Iran. These problems need to be solved on an international level.'

Iraq is another neighbour. Do you foresee more Turkish investments in this oil-rich but war-torn country?

'Sure, Sabanci Enerjisa is, from time to time, looking into investment opportunities in the energy sector of Iraq, but we have not taken any concrete steps yet. First of all, the whole political situation must be settled. Once it is settled I expect Turkey and Iraq will definitely be very important economic partners.' ■

Selahattin Hakman

Selahattin Hakman was born in Istanbul in 1953 and graduated from Karlsruhe Technical University as an electrical engineer. He began his business career at Siemens AG Germany in 1980. In 1984 he joined Siemens A.S. in Turkey where he worked as the Director of the Power Generation Group. In 2006 he joined Sabanci Group as the President of the energy group Enerjisa.

