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**The Global Growth Agenda**  
**GETTING THE MIDDLE EAST BACK TO WORK – THE INVESTMENT AND**  
**DEVELOPMENT AGENDA**  
**Panel**

**JUNE 21, 2013**  
**11:45–12:45, Pavilion 4, Conference Hall 4.2**

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**Moderator:**

**Suna S. Vidinli**, Anchor, NTV

**Panellists:**

**Mehmet Fatih Baltaci**, Chairman of the Board of Directors, Akfel Group

**Muharam Herish**, Chairman of the Board of Investment, Kurdistan Regional Government

**Sergey Popelnyukhov**, Chairman of Board of Directors of Zagranstroy Group,  
Deputy Chairman of the Russian Iraqi Business Council

## **S. Vidinli:**

Good morning, ladies and gentlemen. Welcome to the Middle East session of the St. Petersburg International Economic Forum. I am an anchor for Turkey's leading news network, NTV Television. Today we have very important, distinguished guests with us from all over the Middle East.

In the past three years, transformation in the Middle East area has had a significant impact on the political and economic context of the region. The financial costs for the countries involved in conflict and revolutions have been significant. They have faced GDP losses, fiscal balance deterioration, and the depletion of foreign reserves, drying up foreign investment and enlarging the current account deficit. When we look at the whole picture according to the IMF, GDP losses in Libya, Egypt, Tunisia, Syria, Yemen, and Bahrain are estimated at above USD 21 billion. In spite of all this, the region commands a lot of promise for potential growth, especially if historic imbalances like youth unemployment or income disparity are resolved.

Today we are going to discuss what is happening in the region with very distinguished guests. To my right is Mr. Mehmet Fatih Baltaci, who is the chairman of the board of directors of Akfel Group. He is one of the major gas players in Turkey and he is president of the Turkish–Russian Cultural Foundation. To my left is Mr. Muharam Herish. He is the chairman of the investment board of the Kurdish regional government. As you know, the Kurdish regional government has been profoundly progressing in economic terms, and he will tell us about the recent developments there. We have Mr. Sergey Popelnyukhov, who is the chairman of the board of directors of a major Russian company, Zagrastroy Group, and he is also the deputy chairman of the Russian–Iraqi Business Council.

I would like to start with Mr. Muharam Herish. When we look at northern Iraq, a lot of attention has been focused there. It has been attracting a lot of foreign direct investment, and it is a very prolific region with a lot oil and gas reserves. Some reports say that there might be more reserves there than in Azerbaijan. If I could ask

you first to give us the big picture; how do you see the economic outlook for the region?

**M. Herish:**

Thank you. As a region within an important country, Iraq, we have tried to create a model that provides for the exact needs of society and exact international standards, which are looking to see what is happening in this area which is developing very quickly.

Before 2003, we had a totally isolated economic status. We did not have any resources despite working on some legislation and legal frameworks. We have tried very hard to make sure that we have a prepared climate for the day when resources can flow in. Since 2003, as we are a stable part of Iraq, we have tried to take advantage of the needs of the area, the legal framework, the open-mindedness of the government, and our full belief in a long term and strategic partnership with the private sector. Having an active younger generation can also be a great strength for implementation.

**S. Vidinli:**

When you look at southern Iraq and central Iraq, there is a lot of instability there. But when you look at northern Iraq there has been a constant level of stability and you were also able to attract major contracts with EXXONMobil, and you gained a partnership with the Turkish government as well. Some in the Maliki government are saying that the Kurdish region is progressing on its own autonomous terms and is not acting as part of the whole region. Do you agree with those criticisms? What is your response to that?

**M. Herish:**

We strongly believe that we are a very important part of Iraq and that we play a very important role in the entire political process in Iraq. We have proven that Kurdistan is a gateway to the rest of Iraq and we are trying to use this gateway to develop the

rest of Iraq. For us, the sustainability of the country is part of our own sustainability. We have a constitution that we always stick to. With anything that is in dispute, we refer back to the constitution; it is the last point of reference for resolving arguments. But, of course, this is not only a constitution for the Kurdistan region, it is a constitution that was voted on by all of Iraq.

**S. Vidinli:**

I will turn now to Mr. Sergey Popelnyukhov. You are the deputy chairman of the Russian–Iraqi Business Council as well. How do you see the future relationship of Russia with the Middle East? What would you say some of the advantages and challenges are facing the Russians and Middle Eastern countries, especially Iraq?

**S. Popelnyukhov:**

Russia has always been interested in business in the Middle East. Of course, the instability which has been a recent factor in Iraq has not had a positive impact on business. Recently the situation, as we see it, has been positive; it is getting better. There is a positive trend.

I am not only involved in the construction industry, I am the Deputy Chairman of the Russian Iraqi Business Council and of the Supreme Russian–Arab Business Council, therefore I can state with confidence that Russian business and Russian companies have quite a high interest in the Middle East, especially with regard to countries which have traditionally been friendly with Russia. Regarding Iraq, Russian government policy is currently focused on strengthening relations between Russia and Iraq. All of our export support and development institutions are focused on helping Russian businesses to enter these markets.

Of course, there are currently a whole range of questions and problems on both sides which need to be solved. The main issue is that legislation protecting investments from both sides has, unfortunately, not yet been adopted. In this context, some specific work needs to be done to complete this process as quickly

as possible so that not only major Russian companies but also (and crucially) medium-sized Russian businesses can enter the market in Iraq.

Russian companies are already working in the Middle East, in Iraq and in Kurdistan.

**S. Vidinli:**

Where are your investments concentrated in Iraq? In the north? In the centre? In the south?

**S. Popelnyukhov:**

At the moment there is a very favourable investment climate (the Kurdistan Government is working hard towards this) which is localized, concentrated in the north of Iraq. But very recently, literally just two weeks ago, we hosted a delegation from the Iraqi Chambers of Commerce: Mr. Al-Hamadani, the Chairman of the Federation of Iraqi Chambers of Commerce and all 12 regional representatives from the republic. This included the head of the Kurdistan Chamber of Commerce. Iraqi business is very interested in encouraging Russian investment not only in Kurdistan, in the north, but also in the south – particularly in Basra. Russian companies have begun to operate in Basra with reasonable success. In particular, LUKOIL has launched a major programme; Bashneft has a programme developing business in the energy industry, as far as I am aware; and other Russian companies have similar programmes. This activity is only just beginning, and there are great prospects for this work as we go forward.

Along with the energy industry, there is a huge need to reconstruct and modernize the country's infrastructure. The Iraqi Government has now adopted large-scale programmes to develop both infrastructure and social services (by which I mean medicine, healthcare, and education). This means that quite a wide area of work is opening up for business.

**S. Vidinli:**

I will come back to the Russian influence, not just in Iraq, but in the Middle East in general, also in Syria. Let me turn to Mr. Mehmet Fatih Baltaci. You are a major player. You are Gazprom's biggest private partner in Turkey. You are heading the Turkish–Russian Cultural Foundation, so you are one of those voices that could evaluate the Turkish–Russian relationship pretty well. Let us first start with Turkey, because I know our audience is very curious. What is the general picture in Turkey? With the protests in Gezi Park, some people were expecting a Tahrir Square out of Taksim Square, but it seems that did not happen. We have now learned that the protests have calmed down quite a bit. How do you see the impact of that on the economic outlook for the country and what is your general evaluation of the state of being right now?

**M. Fatih Baltaci:**

Thank you very much. You ask a difficult question. This is definitely not official, but I will try to look at it from a business perspective. Turkey has been shown as a model for the Middle East, and a lot of other developing countries. Since the 1980s, we have kept an interesting economic pace, especially in the last 10 years. We have done a lot to develop the real sector, GDP growth, and employment, and Turkey has done a very good job in the last 10 years. Of course, we have a very young and dynamic population. Society is changing and the expectations of the younger generation are changing as well.

Coming back to what happened in Istanbul, I was born in Istanbul and I have lived my whole life there. I was in Taksim during the protests, and I think there is no way that you can compare what happened there with what happened in Tahrir. Yes, it started peacefully and then things got a bit out of control. I do not want to accuse the media, but this was a product of bad management and exaggerated communication. The protests did not have a real political background; it was more environmental, especially because people in their teens and twenties have not seen the political development of the Turkish political society. In my lifetime, I have seen two military coups. Turkey has a very strong democracy and I think this will be

cultivated successfully. But it is a good message to society as well as to Turkish politicians that they have to listen to the younger generations.

Coming back to the Middle East question, I think the source of the problem is the same here as well. Younger generations are looking forward and they want employment. Let us say they have much higher expectations for the future. Turkey, in creating jobs, has done better than the rest of the region, for sure. But being very close to the Middle East, we have to share the same problematic issues, so I think that Turkey will meet with these issues as well.

**S. Vidinli:**

When we look at the economic climate, there seems to have been constant stability and big economic growth rates in the past 10 years. You invest in a lot of other fields as well. How did the private sector react to this? How is the private sector? Is it vibrant in Turkey? People in the Middle East look to Turkey because it does not have oil, so it had to diversify its economy and it has had enormous growth rates as well. So when you look at that for the near future, do you see greater growth?

**M. Fatih Baltaci:**

The main difference between the economic models of Turkey and the Middle East is that we do not have resources, so we are not based on oil or other natural resources. In the Middle East, economies are either oil driven or public service based. In Turkey, the private sector is developed and comprised mostly of SMEs, so entrepreneurship in Turkey in the last 20 years has developed. That is why the economy was not so fragile. In each case, these entrepreneurs were looking toward their own futures.

I just want to give an example of how dynamic Turkish businesses are. Turkish Airlines today is the airline that flies to the most countries around the world. This is not just because of Turkish Airlines' policy. This is because Turkish businessmen have been in Africa. We have had inter trade within the region, for example we have done a lot of trade with Syria, but now because of the war that relationship has



ended. But Turkish export has turned itself in the direction of Africa, so that is why the economy is not so fragile.

**S. Vidinli:**

In the second round I will ask you about your dealings with Russia and the increased cooperation that you had there. Let me turn to Mr. Muharam Herish. This recent contract has been in the headlines, that is, the Turkish government signing the EXXONMobil contract with the Kurdish regional government. Maliki was a little bit upset, but both the Kurdish side and the Turkish government have said that they are going ahead with the deal. There is obviously a reconciliation process in Turkey that is going on with the Kurdish population, so you have never been closer. How do you see this cooperation playing out in the coming years in the region.

**M. Herish:**

As you may have seen and announced to the public, recently there was a new development when Prime Minister Barzani visited Baghdad and then Prime Minister Maliki visited the Kurdistan regional government and met with all the political figures, including our president. Now things are positively managed. We are always saying that Iraq is our country and whatever we do is for the benefit of this country, according to the constitution. Whatever revenue we get out of oil sales or oil production shares goes back to the Iraqis, which is a constitutional right. We might have differences in our methods and points of view, but again, we strongly believe that this country is sick of violence and the abuse of its resources. It is time to make the best use of resources for the benefit of the entire country. So this is the principle and then the details, legalities, and different interpretations of the constitution are all open for discussion and negotiation, and there are good signs for potential solutions.

**S. Vidinli:**

Mr. Barzani was here yesterday and he met with the energy minister of Turkey and promised increased cooperation there as well. Maybe the St. Petersburg International Economic Forum was yet another flagged forum for your increased cooperation.

**M. Herish:**

Of course, we value our presence at this and other events. We value the reception that we have had here. We should also value the intervention of Turkey as a government, as a business community, and as a society. There was a very strong signal to push the development of Kurdistan in Iraq to a better stage. The size of our commercial activity in Turkey now exceeds USD 14 billion. This is not only for Kurdistan, it is only a way by which Kurdistan is securing its logistic path, which leads to the rest of Iraq.

**S. Vidinli:**

There are also Turkish schools and Turkish universities in the northern region, how are they doing?

**M. Herish:**

They are doing well. I think this is interaction, as we said, from a comprehensive point of view. It is not only for business, it is also for culture and society. The Kurdistan region is really open for such a scenario with all neighbouring countries. We have no reservations about being engaged with any country, but we also value those who came first and extended help to the region, which means, again, to Iraq as a whole.

**S. Vidinli:**

I would like to turn to Mr. Popelnyukhov. Obviously Russia is a major player in the region and Putin has proven himself to be an influential leader in this region as well. Russia has a unique place because it has close ties with Turkey and is a major

energy partner. It has close ties with Syria. It has close ties with Iraq. In the Middle East it is one of those rare actors that has cooperation and contact with all of the region. How do you see Russia taking the lead role in solving the Syrian conflict, and how would that affect the business climate in the region, which is now a little bit risky?

**S. Popelnyukhov:**

Syria is a long-time, historical partner of Russia. Our President has stated unambiguously that we will deal with the legally elected government, with President Assad. Such a clear and precise expression of Russia's approach leaves no room for misinterpretation.

Russia has established, in a far-sighted and positive way, opportunities for equal, friendly relations with all countries in the Middle East. Russia has long-standing, historical connections and traditions with some countries, and with others we are trying to establish a partnership: for example, with Saudi Arabia and Qatar. In any case, Russia has a friendly and positive relationship with these countries, and I have been to Jeddah several times, to various events held in the course of business of the Russian–Arab Business Council.

In general, attitudes are quite positive. Of course, we are concerned about the Syrian problem, we see that it is not a straightforward process. As I said to my colleague, I am not a politician, I am a businessman: it is clear to me that a difficult situation, an armed conflict, does not help the development of business. We are waiting for a prompt, peaceful settlement of the situation in Syria and we support the peaceful Syrian people in their positive endeavours towards this.

**S. Vidinli:**

Let me ask you a business question. If you had to select three countries from the Middle East as markets (it could be Turkey, Saudi Arabia, Qatar, Iraq) which would be the three that you expect the most growth from? What would be the top three for investment in the near future?

**S. Popelnyukhov:**

I would say that the top three would be Iraq, Jordan, and Algeria.

**S. Vidinli:**

Could you elaborate a little bit on what makes them special?

**S. Popelnyukhov:**

I will not repeat myself: the historical connection. Many students from these countries studied in the Soviet Union, and we have friends there who speak our language and know our traditions. Many professionals trained in Russia, married in Russia, and took Russian wives back home. These familial and business relationships strengthen ties, and serve as connecting threads, foundations.

I will say regarding Turkey that it is a country we are friendly with, we have very good relations. Many Turkish companies work in Russia, in the Russian market – including excellent Turkish construction companies. I am in the construction business myself, my colleague is also in the construction business, a competitor, therefore I have very good, friendly relations with Turkish companies. However the question is not about competition but partnership: we should aim for partnership, rather than competing. We plan to work together in Kurdistan – as partners.

We take the same friendly approach towards all countries, but we are not met with a positive response from everyone. If you knock on a closed door many times, then of course you will look on that country a little more cautiously, with hesitation. When we knocked on the door of our Iraqi partners, our colleagues opened the door and invited us in, told us to make ourselves at home. There are countries which are more cautious – that is nothing to worry about, it is a question of time. We need to work at it, make contacts, communicate – and then everything will be okay. So, I have told you our priorities in order and explained my point of view on how I decided on those countries.

**S. Vidinli:**

I would like to turn to Mr. Fatih Baltaci. As I said in the first round, you are the largest private gas player in Turkey, and as Gazprom's biggest private partner in Turkey you have a special outlook on the Turkish–Russian relationship there. What do you see as some of the challenges or advantages there? What is the energy partnership like? Could you draw us a picture of what is going on there, including Russian investment in Turkey and Turkish–Russian cooperation in general?

**M. Fatih Baltaci:**

Russia is first and foremost the biggest trading partner of Turkey. Most of this trading comes from the energy sector, that is, gas and oil. Turkey is the second biggest customer of Gazprom in the world after Germany. Also, Russia is Turkey's number one supplier for gas and also oil.

**S. Vidinli:**

Significant numbers.

**M. Fatih Baltaci:**

Significant numbers, yes, that is true. We are neighbours and we have a long history. This history has not been favourable for the people in previous times. One of the issues we have to deal with actually, not just between Turkey and Russia, but also the region as a whole, is to avoid prototypes. One Turkish philosopher said that prototypes and patterns are the straightjacket of the human mind. I like this saying. Basically, one of the issues that we have to deal with is avoiding cultural issues between the Turks and the Russians. I believe this is the same in the business environment as well. In the long run, Turkey and Russia will remain in close partnership in terms of energy and also infrastructure, because of our geography. They are here and we are there, nobody is moving anywhere.

**S. Vidinli:**

But both countries also share imperial legacies, so I think they understand each other. Both have imperial pasts. Would you agree with that?

**M. Fatih Baltaci:**

But these imperial pasts sometimes do not help. I do not want to comment on our leaders, but of course I am sure they are aware of their imperial pasts. Having Topkapi, and having been to the Kremlin, I am sure there is that sense of pride. But sometimes that does not help. But history has a cyclical pattern, that is true. Nobody forgets their history. This is one of the problems for the Middle East as well. Regional conflicts were there, so regional conflicts continue to exist there. Business people will therefore have to learn how to deal with the existing conflicts. I believe Turkey and Russia can play an important role in the Middle East especially. I do not expect that we will have the same agendas, and the same goes for Syria, but Turkey has more in common culturally and historically with the Middle East. However, despite being similar we do not consider ourselves a Middle Eastern people. We can talk with them but we should not impose our agendas. I think it is not only better for Turkey that way, it is better for the other countries of the Middle East. The Middle Eastern people have to deal with their own destiny.

**S. Vidinli:**

So Turkey should not be a model, but it may be an example. Is that what you are saying?

**M. Fatih Baltaci:**

I do not know about being a model. We have our own agenda. Turkey has to deal with that. We have to grow our GDP. Turkey is not trying to be a model. It is not good to be a model for another country. We have different factors and a different environment, so it is difficult to define the best model for the people of the Middle East. Of course, we talk about democracy, but what kind of democracy are we

talking about? I think they know their problems much better than we do. If outsiders leave them in peace, I think they will solve all that.

The good news is that oil and gas is still very important, but almost all countries are finding oil and gas somewhere else. Therefore, the Middle East is losing their exports as well.

**S. Vidinli:**

Let me ask you about that, about countries finding gas and oil in other places. They have just discovered natural gas in the Tamar Field off the coast in the Eastern Mediterranean. There was also gas discovered off Cyprus in the Aphrodite Field. How do those two gas fields in the Eastern Mediterranean change the balance of geopolitics then?

**M. Fatih Baltaci:**

God has definitely got an interesting sense of humour, because the Arabs were renowned for their ownership of oil and gas and then all of a sudden their Jewish neighbours found out that they had great fields. I believe this weekend they will court for exports, possibly. There is a huge debate in Israel today. So now everyone is rich there. Lebanon and Cyprus have those possibilities as well.

I hope that this oil and gas will help the region. In the last 40 to 50 years, oil has not been a blessing for the region. It is rather a curse, and I am sure our Iraqi brother will comment much more on that. I appreciate Mr. Herish's comment about the creation of an investment-friendly zone. It would be a good model, because the entire Kurdish region has Turkmen, Kurdish, and Arabic groups and they communicate with each other. I think that is a good role model. In that sense, the exploration of Israel's offshore gas definitely would make Israel stronger.

**S. Vidinli:**

Yes, maybe it will lead to new partnerships in the region as well. Let me turn now to Mr. Muharam Herish. What Mr. Baltaci was saying is important: is oil a curse or a

blessing? We talk about the Dutch disease when these countries, in the aftermath of discovering oil, sometimes find that their real cycle diminishes and their economy fails to diversify. Because there is so much revenue coming from oil and gas, they are stuck in that Dutch disease. What kind of precautions are you taking? You have a very vibrant real sector right now in northern Iraq. Are you afraid of facing the Dutch disease?

**M. Herish:**

Let us separate the phases. Until 2003, oil brought disasters for us because the sale of oil brought in forces that wanted to harm our people and damage our history and culture. Since then, Iraq is a new Iraq and has a new model for living together. We now expect our oil revenue to start a new, very important period of development in Iraq, not only in infrastructure but also in human resources and developing the capacity to sustain these services in the end.

As an oil country, there are many enemies that we need to be careful of. First of all, as you may know, Kurdistan is going to be an oil country, but we also try to have other sources of income so that we are not fully dependent on oil reserves or oil revenues. Our investments in other sectors have reached USD 28.3 billion since 2006, which includes all sorts of different sectors and nothing that is related to oil upstream or downstream. In addition to that, being engaged with oil sectors may also direct us to some areas where there are gaps, such as accountability and transparency measures and the implications of those. For that, the government has initiated strong procedures and processes, first with companies that have their own accountability measures, but also as a government through hiring international consultancy firms to increase transparency strategies. We consulted with Price Waterhouse Cooper to lay down the framework for our transparency measures. In addition to that, we are aware that this will take us to a stage of full dependency on an external workforce, instead of working for ourselves as an oil country and having a huge amount of money flowing in. The government is very well aware of this and huge attention has been given to scholarships. On an annual basis, the government



is allocating USD 100 million for scholarships outside of Kurdistan. In addition to that, the next phase is coming and we are carefully studying with our ministry of planning and international institutions in order to pay attention to vocational training and formational programmes so that we can have both layers working on the same things to integrate operational aspects.

**S. Vidinli:**

I think you guys deserve credit for that. From the beginning, I think the region has fully been integrated and has turned itself towards this, not just in consulting. They did not close up, so I think that has paid off.

Let me turn to Mr. Popelnyukhov, I want to talk about your group a little bit, the Zagrastroy Group, because that has a big history, obviously, and you are also active not only in infrastructure but in energy as well. I would like to talk about, for our audience here, your main areas of business and I would like you to compare, if possible, the Middle Eastern market with the European market and the Chinese market, because Russia is effective and functioning in all three of those markets. How does the Middle Eastern market differ in that respect? Could you just give us your angle on that?

**S. Popelnyukhov:**

Our group is indeed very active in the energy sector, therefore, when making comparisons the following should be noted. The extensive programmes which have been adopted to develop the energy industry in the Middle East require huge investment. Therefore, in order to compete successfully, engineering contractor companies are chosen to participate through tender processes, not only to complete certain work, but also to attract investment – both by investing their own money and using state support. A normal, healthy level of protectionism, supporting national companies in global competition on the market, is one of the factors which improves the competitiveness of the economy. Today, Russia has a clear state policy of supporting Russian companies and encouraging them to work in foreign markets;

development institutions have been set up; specialized institutions supporting exports by Russian companies have been set up, notably the Export Insurance Agency of Russia (Mr. Fradkov), as well as other major state development institutions. At this Forum, Russian Railways signed an agreement to support operations in foreign markets.

So support in the Middle East not only concerns contract work but also investment. Markets in Europe are already structured, they are fully formed and stable, therefore our involvement there is in supplying energy products. European companies are looking into alternative energy sources and diversifying their business. We are also looking to collaborate on this, but for the most part in the engineering of new technologies.

China is a huge growing market, it requires a lot of energy resources and it is developing rapidly, therefore in working with our Chinese partners, Russian companies focus mainly on supplying energy products. As the President said, a major contract between Rosneft and Chinese companies has been signed recently. This joint work with our Chinese partners includes joint production facilities in Russia, manufacturing equipment for electricity generating companies and for electricity networks.

**S. Vidinli:**

Thank you very much. Let me ask a final question to Mr. Fatih Baltaci, and then I want to turn to the audience for some questions. You are active in the natural gas field, and Turkey is Gazprom's private partner. There is Enerco and then there is Akfel. Could you inform our audience of your business activities and what you do in that context?

**M. Fatih Baltaci:**

Just briefly, Turkey is importing 98% of its gas. We have a very small amount of production in Turkey. Turkey is the biggest growing gas market in Europe. We have had an average growth rate of 3% over the last 10 years and I think it will reach the

60 BCM, which is almost the size of Italy, in 2020. In southern Europe, we are the only country that has had a huge demand increase. This demand comes mainly from power, as well as industry. Turkey's energy mix is more in favour of natural gas. Almost 50% of power production depends on gas, so Turkey is a gas hungry country. Turkey is very much interested in the gas developments in the region, in northern Iraq, Israel, and Iran. Of course, we are also importing gas from Iran, and the biggest supplier is Russia. We are importing from Russia mainly as a private company and we are definitely interested in the other alternative sources in the market. Turkey aims to be the west's most eastern hub or the east's most western hub. That is the Turkish ministry's policy, but unless we have a liberal market, we cannot achieve our goals. We have seen huge developments in European markets. The hub prices are challenging the long term formula prices. Shale gas is not yet effective in the region, but it definitely affected the energy market, and subsequently world gas. That is why I mentioned shale gas and shale oil, and it will also dramatically help the Middle East, because almost everywhere in the world has some kind of oil and gas. I do not want to say that the Middle East will be less important, but it will be given less attention. Just to summarize, I would say that the Turkish gas demand will increase in the coming years, and as a company we would like to cooperate with our partners from Russia and other regions. I believe that previously there was a project established between Israel and Turkey that was based on water. It also included Cyprus. I believe they called it "Peace Water." I believe that the gas pipelines might bring some kind of stability in the region, and I hope that is true.

**S. Vidinli:**

I will now turn to the audience, if there are any questions. There are many questions. That is very good. Let me start with the lady there and then the gentlemen. I am going to take a few questions and then I will have our panellists answer your questions together.

**From the audience:**

Hello. I am the German delegate to the Y20, and I have a question for the whole panel as they are experts on the whole of the Middle East, more or less. The Middle East has always been quite a complex area. We have countries like Syria that are in the middle of conflict and countries like Iraq that are getting back to their feet after conflict. Congratulations again on that. I have a question concerning a country in the middle of these formerly mentioned countries: Egypt. What is this panel's judgment or analysis of the economic situation in Egypt, of the possibilities for investing there and for getting the country back on its feet?

**S. Vidinli:**

Thank you very much. Let me take another question.

**From the audience:**

I have a couple of questions. I am a Turkish delegate here for the Y20 meeting. From the recent agreement between the Kurdish region of Iraq and Turkey, we know that Turkey will be able to purchase gas for half of the price we would pay to Russia. How is that going to affect Mr. Baltaci's business, since they are the largest consumer of Russian gas?

My question to Mr. Herish is, how is the presence of PKK (Parti Karkerani Kurdistan), the terrorist group, affecting your business and your agreements?

Then I have a question for Mr. Popelnyukhov. Sorry, I guess I am asking too many questions. Russia has the monopoly on gas supply to Europe and now Turkey has a new role and is building pipelines to carry gas out from Turkmenistan and Azerbaijan to Europe, as well as from the Middle East to Europe. How is this Turkish strategy going to affect your business?

**S. Vidinli:**

Let me take a few more questions because I want to give everyone a chance. If I could just take one question from each person, that would make it easier for our panellists.

**From the audience:**

I have a general question, but I think one of our distinguished panellists can answer it. I am from Turkey. I am a PhD student in energy production sciences. I am also presenting as the chairman of the OC for the Turkish delegation to the Y20.

Two days ago, we came up with a final communiqué as the youth group. In the communiqué, we had some ideas about decarbonization taxes or some institutions that would define the price of oil and gas. We gave this final communiqué to President Putin yesterday and he welcomed the communiqué, and that was surprising for us. As the energy traders and producers here, do you think that these environmentally driven concerns will affect your businesses and that we will have these taxes? I am asking this as an environmentalist. Thank you.

**S. Vidinli:**

I will have two more questions from the audience. Are there any further questions? Yes, the lady over there.

**From the audience:**

Thank you very much. I guess that the Y20 presentations are booming with questions. I am a Y20 delegate and I represent the European Union. I wanted to ask more of an investment question to Mr. Herish. Since I am representing the European Union and we definitely have programmes that want to invest in countries that are coming out of conflict and destabilization, what would be your advice as to how to attract investment in your region and your country, since investors have no actual assurances that there will be safety and returns on their investments? What would be your next steps to attract investors? Thank you.

**S. Vidinli:**

Thank you very much. If there are no further questions, I will turn back to our panellists. Let me start with Mr. Herish then. Let us start with two questions. One of them was about the PKK concern. Obviously there is a big consultation going on between factions in Turkey. Do you think that is a liability for your region in the long term? The second question regards the legal framework that is missing.

**M. Herish:**

In terms of the first question, I think that everyone knows that the peace process is on the way to being achieved now in Turkey, which is favourable for all: for Kurdistan, for Iraq, and for other neighbouring countries. We tried as much as we can, even during the conflict, during the tension with this issue and other issues, to separate political affairs from business. Even during tensions with neighbouring countries, we have tried to protect business from any political violence. I can openly say that we have never seen any negative side effect or influence as a result of the violence that has taken place, which might be a sign of the strength of the investment environment in Kurdistan. That is why, despite all these concerns, investments have grown and the economy has expanded. There are many reasons for that. At the top, is the fact that we have a very open-minded government that has its priorities organized in the Kurdistan region, separating politicians from technocrats. As technocrats we have never interfered with politics. We have tried to work under the governmental umbrella, part of which concentrates on economic development and capacity building, and raising awareness of the community to the extent that peace should always be the target.

**S. Vidinli:**

The second question regards the legal framework. Could you provide a short answer for that?

**M. Herish:**

We do have investment law, and it is considered as the most friendly law for everyone. It provides equal opportunities for foreigners and local and domestic investors, providing tax holidays for tenures and ownership of properties for everyone, including foreigners. We provide one-stop-shop services at the Board of Investment, so we are prepared to receive proposals. However, I would like you to know a very important piece of information. Kurdistan's regional government does have official representatives in most countries, including European countries. These offices are being officially recognized as contact points that facilitate the movement and work of investors, researchers, and anyone else. So in Moscow, Russia, we have Dr. Aso Jangi Burhan as a Kurdish regional government representative and in most other different countries we have very active officials working. And, of course, we do have Iraqi embassies which have been very helpful to our ambassadors, who were working with us as members of our team to connect us with business committees that are interested in learning about us. For anyone who wishes to contact us, I am sure our ambassador in Moscow or our Kurdish regional government representative would be happy to help. The same also applies to other countries.

**S. Vidinli:**

Thank you, Mr. Herish. Let me turn to Mr. Popelnyukhov. There was a question about the alternative Caspian energy routes and how that would affect energy politics in the region. Russia obviously has close ties with its Caspian partners. If you could evaluate the big picture there, do you think there might be any short term or long term implications from these alternative Caspian routes?

**S. Popelnyukhov:**

The Caspian Basin, shelf, and the Caspian oil and gas region are currently attracting big players, major companies. Major programmes have been adopted to develop the Caspian shelf and provide the necessary port infrastructure, forming transport corridors from the Caspian region to the European market and to other

markets. Russia, naturally, is diversifying both its supply routes and the areas where it is developing deposits. Therefore there is nothing alarming about the fact that Russia paying quite a lot of attention to the Southern Transport Corridor, especially considering that developing this transport infrastructure to supply oil and gas is significantly cheaper than developing an infrastructure from the regions of Siberia or the Far East, due to the climactic and geographical conditions.

Of course, Russia is concerned with political stability in the region. All the countries in the Caspian Basin are members of a regional political organization. Businesses are conducting consultations on bringing investment into the area, on developing the port infrastructure, and on safe navigation in the Caspian. Therefore we view the efforts of our government and major companies regarding the Southern Transport Corridor in a positive light.

**S. Vidinli:**

Thank you. Let me ask the final question to Mr. Fatih Baltaci. Obviously now Turkey is finding alternative sources of oil and gas. One of our audience members mentioned that they might have access to even cheaper natural gas. Would that affect your business?

**M. Fatih Baltaci:**

It will definitely affect everyone. In terms of pricing for gas, the genie is already out of the bottle. Two or three years ago, American shale gas revolutionized and changed the expectations of the industry. Of course, I will not comment on pricing issues and whether they are healthy or not, because it is all commercially sensitive, but as Mr. Popelnyukhov mentioned, every supplier's production reality is different. Russia was a very important player and gas supplier and was instrumental in all of Europe's economy in the last 40 years. It was a reliable supplier likewise for Turkey. I believe that Russia will not trade in its gas market share in any markets and they will fight for their market share. I believe the prices will change one way or another, but the price is not the only parameter that we need to look at. Production costs in



northern Iraq and Iran and the ability to transport gas to the European market are different than in Russia's case. While we may expect the process will change, we should not anticipate an immediate change, because you need infrastructure and other measures to bring gas to the market. That is what I can say.

**S. Vidinli:**

Thank you very much. We have come to the end of the session. I think we were privileged to host three major names from the three major countries of the region: Russia, Iraq, and Turkey. Those are the countries that command the most economic growth. We have tried to draw a general picture of the political and economic landscape for you. Thank you for coming.