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## BULLETIN

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### SYRIA'S 'VERY, VERY UGLY' RELATIONS WITH TURKEY

Following his September 21 meeting with President Obama, Turkish Prime Minister Recep Tayyip Erdogan told the press that Turkey and the U.S. would work together to decide on what sanctions Turkey should impose against Syria. Erdogan described his relationship with Obama as his “pride and joy” and Turkey’s relationship with Syria as “very, very ugly.”

New Turkish sanctions would add incremental economic pressure on Syria at a time when Syrian petroleum exports and imports have come to a virtual standstill. In the past few weeks, Syria’s government-run oil trading firm, Sytrol, has had no takers for cargoes of crude oil, naphtha, and vacuum gas oil that it has tendered for sale. Neither has it found anyone willing to sell it the diesel it needs. The few traders willing to look into deals with Sytrol say they can’t find a vessel willing to go to Syrian ports or a bank to handle the payments.

The EU sanctions on the import of Syrian crude exempt contracts signed before September 2 and permit imports into the EU until November 15. Earlier this week, Sytrol posted its official selling price for its heavy crude for October delivery unchanged from September levels, suggesting it hasn’t secured government approval to offer steep discounts. Two weeks ago, Chinese trading company Unipecc was reportedly interested in buying Syrian vacuum gas oil, although it has not seriously pursued any new purchases yet.

#### **Syria’s Refining Problem**

Syrian refineries have the capacity to produce about 240,000 b/d of products, but about 40,000 b/d of these products—mostly naphtha and vacuum gas oil—normally must be exported because there is no ready market for them in Syria. It’s not clear whether Syria has the option of reinvesting these products into reservoirs or burning them in power plants. The refineries also do not produce enough gasoline or diesel to meet domestic demand. On September 21, Sytrol issued a tender to buy 60,000 tonnes of diesel for delivery in the second half of October. At least two and possibly three previous tenders for diesel issued this month failed to secure deliveries. Some traders have speculated that Syria is running out of diesel fast.

One international company producing crude in Syria, London-listed Gulfsands Petroleum, informed analysts this week that it had been told to cut back production this month from 24,000 to 14,500 b/d due to lack of storage capacity. The company also said that EU sanctions have affected its ability to process payments received from its government joint-venture partner due to the reluctance of European banks to touch Syrian government transactions.

### **Crooked Deals Would Be Challenging**

Opportunistic traders can be expected to make offers to help Sytrol out of its situation. But, to be successful, these traders would almost certainly have to bypass Sytrol's timid bureaucrats and make a direct pitch to Assad's inner circle, probably to Bashar's bag-man cousin, Rami Makhlouf. Makhlouf would certainly demand kick-backs. The opportunistic trader would find it challenging to put together a profitable crooked deal with counter-parties who may not be around for long. Syria's annual oil exports are valued at about \$5 billion a year.

### **Erdogan's 'Pride and Joy'**

Turkish-Syrian bilateral trade amounted to \$2.5 billion in 2010—up from \$500 million in 2004. Erdogan's announcement that Turkey and the U.S. would work together to decide what sanctions Turkey would impose on Syria reflects the close personal relationship that has developed between Obama and Erdogan. Erdogan praised the closeness of their relationship, calling it his "pride and joy" during a September 21 interview with *PBS's* Charlie Rose.

"We are enjoying a model partnership with the American Administration," he said. Erdogan did not mention whether President Obama had tackled the question of Turkey's now-frosty relations with Israel. For every step Erdogan has taken to chill relations with Israel in recent weeks, he has taken countervailing steps to draw closer to the U.S., including agreeing to new American radar installations that will provide early-warning of Iranian missiles. Some analysts have called the radar agreement the most significant strategic agreement in U.S.-Turkish relations in decades.

Erdogan said his talks with Obama concentrated on working together on Syria and on the PKK terrorist threat to Turkey. Assad has attempted to blackmail Turkey by warning that Syria would unleash the PKK to attack Turkey and implied that Syria would work in tandem with Iran to that end. Iran last month notably terminated intelligence-sharing with Turkey on the PKK and its affiliates.

### **Working Together with U.S. on Syrian Sanctions**

"I halted talks with the Syrian government," Erdogan told the press in New York on September 21. "I did not want to come to this point. But the Syrian government forced us to make such a decision. The United States has sanctions regarding Syria. Our Foreign Ministers will be working together to decide what our sanctions may be. As a result of this cooperation, the sanctions may not resemble those on Libya. Every sanction differs

according to country, people and demographic structure. Thus, sanctions on Syria will be different. We have preliminary studies on the issue," the state news agency *Anatolian* quoted him as saying.

### **Syria Hurls Gratuitous Insults at Turkey**

Erdogan was incensed by a Syrian official news report on September 20 alleging that Syrian refugee camps in Turkey were "centers of isolation, full of rape and torture." The camps provide shelter to more than 7,500 Syrians who have fled Assad's violent crackdown. The *SANA* report featured a presumably fictitious interview with a Syrian girl who claimed she had been raped by Turkish soldiers and Syrian gangs in the refugee camps and allegedly had fled back to her Syrian village of Jisr al-Shughour for safety. The woman claimed as many as seventy other Syrian girls had been raped in the refugee camps. The Turkish Foreign Ministry called the *SANA* report "a unique example of black propaganda, lies and evil." Erdogan described Turkey's relationship with Syria as "very, very ugly."