

Letter of Agreement Between the Defense Energy Support Center and the Turkish Ministry of National Defense Fuel Supply and NATO POL Facilities Operating Agency Concerning the Use of the Turkish NATO Pipeline System (TNPS), with Annexes. Signed on December 30 and 31, 2004. Entered into force December 31, 2004.

LETTER OF AGREEMENT
BETWEEN
THE DEFENSE ENERGY SUPPORT CENTER
AND
THE TURKISH MINISTRY OF NATIONAL DEFENSE
FUEL SUPPLY & NATO POL FACILITIES OPERATING AGENCY
CONCERNING
THE USE OF
THE TURKISH NATO PIPELINE SYSTEM (TNPS)

Dated: January 31, 2005

I certify that this is a true and complete copy of the original version of the English and Turkish translation of the Letter of Agreement Between the Defense Energy Support Center and the Turkish Ministry of National Defense Fuel Supply & NATO POL Facilities Operating Agency Concerning the Use of the Turkish NATO Pipeline System (TNPS).

[Signature]

Timothy A. Raezer
Assistant Counsel
DESC

PREAMBLE

The Defense Energy Support Center (DESC) and the Turkish Ministry of National Defense Operating Agency Fuel Supply and NATO (North Atlantic Treaty Organization) POL (Petroleum, Oil and Lubricants) Facilities (MOD-ANT), hereinafter referred to as the "Party" or "Parties";

Have agreed as follows:

I. PURPOSE AND SCOPE

1.1. Purpose. The purpose of this Agreement is to establish an arrangement whereby the DESC may utilize the Turkish NATO Pipeline System (TNPS) to support United States of America (U.S.) Forces in Turkey. The services provided under this Agreement shall

include storage, transportation and terminaling of DESC aviation jet fuel (NATO Fuel Grade Code F34) in accordance with the arrangements specified herein.

1.2. Scope. The scope of this Agreement applies to the use of the various off-take points on the TNPS, to support U.S. Forces in Turkey. The DESC use of the TNPS applies during hostilities, contingencies, cooperative efforts, and deployments.

II. RELATIONSHIP

2.1. DESC.

2.1.1. DESC is the U.S. Department of Defense (U.S. DoD) administrator and funding agent for this Agreement.

2.1.2. DESC-Europe (DESC-EU) is the European Office of DESC and shall have management oversight of the Agreement.

2.1.3. DESC-Europe-Turkey (DESC-EU-TU) is the Office in Turkey for DESC and shall directly liaise with the MOD-ANT on all matters relating to this Agreement.

2.2. MOD-ANT.

2.2.1. MOD-ANT is the Turkish administrator for this Agreement.

III. RESPONSIBILITIES

3.1. DESC shall:

3.1.1. Provide MOD-ANT with notification of imports into the TNPS and shipments to Incirlik Air Base and various off-take points on the TNPS specified in Annex D.

3.1.2. Process customs documentation (Beyanname) prior to introducing DESC owned aviation fuel into the TNPS and import F34 into Turkey or procure from sources within the country to support U.S. Forces.

3.1.3. Ensure that product introduced into the TNPS meets jointly determined quality standards and NATO Standardization Agreements (STANAGS). Quality standards are specified in Annex A.

3.1.4. Reimburse MOD-ANT for all mutually determined costs as specified in Annex E of this Agreement.

3.1.5. Reimburse MOD-ANT for any fair and reasonable costs for special requirements or projects specifically requested by DESC to support U.S. Forces within Turkey, pertaining to the supply of F34, which are not specified in Annex E of this Agreement and are agreed by the Parties before work begins.

3.2. MOD-ANT shall:

3.2.1. Receive, store, transport, issue and maintain quality standards of DESC F34 introduced into the TNPS as specified in this Agreement.

3.2.2. Submit invoices to DESC-EU-TU for the services specified in this Agreement.

3.2.3. Maintain environmental responsibility for DESC F34 stored and transported within the TNPS.

3.2.4. Ensure the availability of F34 at the:

3.2.4.1. Quality, as specified in Annex A.

3.2.4.2. Quantity, as specified in Annex C.

3.2.4.3. Locations, as specified in Annex D.

IV. OPERATION AND FINANCE

4.1. Fixed Price Banking Arrangement. The MOD-ANT shall provide F34 to DESC customers from within the TNPS on a fixed-price banking arrangement. This arrangement is based on DESC establishing credits in the TNPS by depositing F34 into the system and shall allow DESC to withdraw like credits of F34 at the quantities, quality and locations specified in Annex D.

4.1.1. Fixed Price Arrangement.

4.1.1.1. Storage. DESC shall pay a fixed price for 500,000 barrels/79,500 cubic meters (m³) of storage capacity in the TNPS (one barrel equals forty-two U.S. gallons).

4.1.1.2. Throughput. DESC shall pay a fixed price per barrel for the import of up to 2,700,000 barrels/429,300 cubic meters (m³) of F34 per calendar year.

4.1.2. Banking Arrangement.

4.1.2.1. One Litre @ 15°C of F34 imported into the TNPS by DESC creates one inventory credit in the system. DESC is immediately authorized to withdraw these credits at the locations specified in Annex D.

4.1.2.2. The Parties shall agree to the number of DESC inventory credits in the TNPS upon implementation of this Agreement. A statement of inventory credits shall be attached to the signed Agreement.

4.2. Statement of Prices. A statement of prices is specified in Annex E. The pricing structure can only be changed as agreed in writing between Parties as an amendment to this Agreement.

4.3. Invoices. Invoice procedures are specified in Annex F.

4.4. Stock Management. Stock management and scheduling procedures are specified in Annexes B and C.

4.4.1. DESC Storage Requirements within the TNPS.

4.4.1.1. The DESC maximum annual storage requirement shall be not more than 500,000 barrels per year for the duration of this Agreement. This stock level shall be managed in accordance with Annex D.

4.4.2. Imports into the TNPS and Transportation. DESC intends to purchase product from refinery sources within Turkey or import product through the TNPS port facilities at Mersin and Antalya.

4.4.3. Unscheduled Usage Rate Increases. DESC shall notify MOD-ANT immediately of any anticipated increases in F34 requirements.

4.5. Site Visits. MOD-ANT shall permit site visits by DESC representatives for the purposes of reviewing DESC sponsored projects and other matters as agreed between the Parties.

V. GENERAL PROVISIONS

5.1. All activities of the Parties occurring within the territorial jurisdiction of Turkey under this Agreement shall respect the laws of Turkey. All activities of the Parties under this Agreement also shall be carried out in accordance with their national laws.

5.2. Financial Commitment. This Agreement does not in itself obligate funds. Subject to availability of funds, DESC agrees to honor all financial commitments specified in this Agreement through a separate funding certification.

5.3. Immunity and Legal Process. Third party claims arising from activities occurring within the territorial jurisdiction of Turkey and covered by this Agreement shall be dealt with in accordance with the "Agreement Between the Parties to the North Atlantic Treaty, Regarding the Status of their Forces," dated June 19, 1951, and the "Agreement Between the United States of America and the Republic of Turkey Relative to the Implementation of the 'Agreement Between the Parties to the North Atlantic Treaty, Regarding the Status of their Forces,'" dated June 23, 1954, and the laws of Turkey to the extent applicable and not inconsistent with the bilateral agreements between the Parties.

5.4. Taxation. Invoices shall be exempt from tax based on Turkey and U.S. tax exemption agreement dated 23 June 1954 as ratified by Turkish law number 6426.

5.5. Amendment. Amendments to this Agreement may be proposed by either Party and shall, upon acceptance by the Parties by means of a jointly signed amendment, become a permanent part of this Agreement.

5.6. Termination. This Agreement may be terminated at any time upon the written consent of the Parties subject to a negotiated financial settlement for termination. After the initial one-year, either Party may unilaterally terminate the Agreement by giving the other Party ninety (90) days written notice of intent to terminate. The Parties, in consultation, shall take action to limit the impact of termination on either Party. Any DESC credits remaining at the time of termination shall be disposed of in a manner jointly decided by the Parties.

5.7. Disputes. Disputes between the Parties, regarding the interpretation or application of this Agreement, shall be resolved by consultation between the Parties and shall not be referred to national courts, an international tribunal or any other party or entity. In the event the Parties cannot reach an agreement within one hundred twenty (120) days of the disputed matter being raised by one Party with the other, either Party may refer the disputed matter through their normal organizational channels for settlement.

5.8. Supersession. This Agreement supersedes Letter of Agreement Between The Defense Energy Support Center (DESC) and the Turkish Ministry of National Defense Operating Agency (MOD-ANT) Fuel Supply & NATO POL Facilities For the Use of the Turkish NATO Pipeline System (TNPS) To Support Incirlik AB From Mersin Depot, dated 11 October 2001, and its Amendments.

5.9. Effective Date and Duration. This Agreement shall enter into force upon signature of both Parties, and shall remain in force through December 31, 2006. Beginning January 1, 2007, this Agreement shall automatically renew for a two (2) year period unless objected to by either Party, in writing, at least ninety-days (90) before the end of the current period.

VI. AUTHENTICATION

This Agreement and any amendments, shall be executed in both English and Turkish languages with each text being equally authentic.

This Agreement consists of Six (6) Articles and Six (6) Annexes.

In witness thereof, the undersigned have signed this Agreement

FOR THE
U.S. DEPARTMENT OF DEFENSE FOR THE
TURKISH MINISTRY OF NATIONAL

DEFENSE FUEL SUPPLY & NATO
POL FACILITIES OPERATING AGENCY
[Signature] [Signature]
Date Signed: DEC 30 2004 Date Signed: Dec 31 2004

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ANNEX A QUALITY CONTROL

A.1. Fuel: F-34 received, stored, and issued shall be in compliance with one of the national specifications listed under the relevant code in STANAG 1135 or STANAG 3747 or as amended by STANAG 1110 shall be accepted into the TNPS.

A.2. Fuel Degradation or Contamination: MOD-ANT shall assume responsibility for all fuel, which is downgraded or contaminated. Full credit shall be given to DESC for any quantity not meeting the minimum requirements in paragraph A.1. above.

A.3. Sampling: Fuel received, stored and issued shall be sampled in accordance with (IAW) the provisions of NATO STANAG 3149. Additional samples may be requested by the DESC or MOD-ANT.

A.4. Testing: Testing shall be performed IAW the provisions of NATO STANAG 3149 and the national specification listed under the relevant code in STANAG 1135 or STANAG 3747 or as amended by STANAG 1110.

A.5. Test Reports: Test reports on fuel and additives, which are prepared by MOD-ANT, shall be maintained for three years and be provided upon request by DESC.

A.6. STANAG 3149: Provisions of NATO STANAG 3149 "Minimum Quality Surveillance of Petroleum Product" shall be complied with on all fuel received, stored, and issued.

A.7. Laboratories: Laboratories used for testing fuel under this Agreement shall meet the national standards of Turkey, for calibration and accuracy. The results shall be reviewed as required and mutually accepted by both Parties.

ANNEX B PRODUCT SCHEDULING

B.1. Scheduling. MOD-ANT shall facilitate the scheduling of DESC fuel imports from points of entry to authorized delivery points, specified by the delivery date and points of delivery, as stated by the DESC-EU-TU monthly nomination.

B.1.1 Following confirmation of DESC end-of-month stock credits, DESC-EU-TU shall advise MOD-ANT of volumetric requirements to be credited and debited within the TNPS for the following month.

B.1.1.1. For Credits: Quantity of fuel and the entry points including approximate dates.

B.1.1.2. For Debits: Estimated quantity of fuel and the delivery points including approximate dates.

ANNEX C STOCK MANAGEMENT

C.1. DESC credits and debits shall be recorded in whole liters at 15°C in accordance with ISO 91-1/ASTM D1250. Forty-two (42) U.S. gallons equals one (1) barrel, one (1) U.S. gallon at 60°F equals 3.7854 liters at 15°C for F34 with a density between 0.799 & 0.820 (Table 22 of ISO 91-1/ASTM D1250).

C.2. DESC Credits into the TNPS. The receiving terminal operator in conjunction with the DESC quality assurance representative shall determine the quantity received and enter that quantity on the U.S. DoD (DD) Form 250 series document in both liters @ 15°C and USG @ 60°F. This quantity shall be the DESC credit into the TNPS.

C.3. DESC Debits out of the TNPS.

C.3.1. Incirlik Air Base Receipts. The quantity of fuel issued to Incirlik Air Base shall be documented on the DD Form 1348 receipt form. The on-base receipt figure shall be compared to the amount transferred from Adana NATO. The issued figure shall be a DESC debit out of the TNPS. Any excessive gains/losses shall be jointly investigated between the Parties.

C.3.1.1. The Parties agree to use a temperature compensating meter (once installed) at the custody transfer point between Adana NATO and Incirlik AB as the means to measure fuel issued to Incirlik AB as a DESC debit.

C.3.2. Road Tanker Loading. Quantity received into DESC-provided road tanker shall be calculated from the meter ticket on the road tanker gantry. This quantity shall be DESC's debit out of the TNPS. MOD-ANT shall ensure that DESC-EU-IN receives a copy of the issue meter ticket from the issuing offtake point.

C.4. Reports. MOD-ANT shall produce an end of month stock report to include, opening stock balance, credits, debits, and closing stock balance for the month. These figures are compared to DESC-EU-TU inventory figures.

C.5. Handling Fee: DESC and MOD-ANT shall perform an annual reconciliation of all DESC owned product delivered into the TNPS banking system. The annual reconciliation will take place following the calendar year (CY) being reconciled, but no later than March.

C.5.1. The Parties agree that a Handling Fee of ½ of 1% (0.5%) of the total quantity imported by DESC into the TNPS will be determined and mutually agreed upon in writing during the annual reconciliation meeting. This quantity will be applied as a debit to the DESC banking system inventory and used to settle MOD-ANT annual banking system Handling Fees.

C.5.1.1. The Handling Fee will also compensate MOD-ANT for all internal banking system fuel losses during transportation of DESC owned fuel. DESC shall pay an annual Handling Fee of ½ of 1 % (0.5%) for each budget year (calendar year) for fuel delivered into the TNPS as a DESC credit by tanker vessel or by commercial sources within Turkey.

ANNEX D POINTS OF ENTRY/DELIVERY POINTS

D.1. TNPS Point of Entry.

D.1.1. DESC shall be authorized to deliver F34 into the TNPS at the ports of Mersin and Antalya. Imports into Antalya shall only occur on an emergency basis and shall be coordinated with MOD-ANT prior to import.

D.1.2. MOD-ANT shall advise DESC-EU-TU immediately if the port is unable to receive ocean tankers and advise when discharge capability shall be restored.

D.1.3. MOD-ANT may reject imports into the TNPS, if to do so, would result in the DESC TNPS stock balance exceeding the storage capacity specified in Article IV. However, with prior notification and concurrence MOD-ANT may accept increased import quantities above the authorized capacity.

D.2. TNPS Delivery Points. DESC shall be authorized to receive F34 from the TNPS at the following delivery points:

D.2.1.1. By pipeline into Incirlik Air Base

D.2.1.2. Into Road Tanker from Adana COCO, Elazig COCO, Diyarbakir NATO and Batman NATO terminals.

ANNEX E STATEMENT OF PRICES

E.1. The Parties agree to the prices listed below for services provided to DESC. These prices shall remain in effect until December 31, 2006. Following years will be subject to the annual inflation adjustment according to the average percentage increase in the inflation rate of the Turkish Consumer Price Index (CPI), unless otherwise agreed by the Parties.

E.1.1. Storage. \$1.12 U.S. dollars per barrel per year for 500,000 barrels (79.500 m3).

E.1.2. Transportation. Transportation of up to 2,700,000 barrels (429,300 m3) of F34 annually from point of entry to delivery points specified in Annex D for the following costs:

E.1.2.1. Into Incirlik Air Base by pipeline from Adana NATO—\$0.36 U.S. dollars per barrel

E.1.2.2. Into Tank Truck at the following locations:

E.1.2.2.1. Adana COCO—\$3.00 U.S. dollars per barrel

E. 1.2.2.2. Elazig COCO—\$5.01 U.S. dollars per barrel

E.1.2.2.3. Diyarbakir—\$5.38 U.S. dollars per barrel

E.1.2.2.4. Batman—\$7.12 U.S. dollars per barrel

E.2. Antalya. In case the fuel is off-loaded at Antalya Sea Terminal, public transportation fee shall be charged separately. DESC shall be responsible for funding costs to transport F34 from Antalya to Mersin if MOD-ANT has no product in the Eastern TNPS to give DESC as credit for import into Antalya.

ANNEX F INVOICE AND PAYMENT

F.1. Invoicing.

F.1.1. MOD-ANT shall submit to DESC-EU-TU, a monthly invoice for transportation costs and a semi-annual invoice for storage costs.

F.1.2. The invoice shall specify the charges for storage and transportation as separate entries on the invoice. Invoices for special projects may be submitted at any time.

F.1.3. The invoice shall be submitted in U.S. dollars.

F.1.4. TMOND-ANT shall submit all invoices to:

HQ ODC-Turkey

ATTN: DESC-Turkey
94 Ismet Inonu Bulvari
06650 Bakanliklar

F.2. Payment.

F.2.1. DESC shall pay invoices within 30 days of receipt of a valid invoice at DESC-EU-TU.

F.2.2. DESC shall make payment by way of Electronic Funds Transfer (EFT) into the following MOD-ANT account

TC Ziraat Bank
Account Number: 446565
Routing Number: 02100008