

Overview of the Turkish Petroleum Market

İrem Bulut

The increase in energy consumption, due to the population and economic growth throughout the world as well as in Turkey, requires close attention be paid to the developments and changes in the petroleum sector, the primary energy source in the market.

Turkey is located between the Middle East, North African and Caspian regions, which hold two-thirds of the world's petroleum and natural gas reserves. Turkey is stabilizing its position in the petroleum market ("Market") by completing its legal infrastructure during its European Union integration period.

Pursuant to Turkish law, activities related to petroleum and its derivatives are mainly regulated under (i) the Petroleum Market Law no. 5015 (Petrol Piyasası Kanunu), (ii) the Petroleum Law no. 6326 (Petrol Kanunu), and (iii) the Petroleum Market License Regulation ("License Regulation") (Petrol Piyasası Lisans Yönetmeliği).

History and Structure of the Turkish Petroleum Market

The new Petroleum Law revoked the previous Petroleum Law no. 792 dated March 24, 1926. The Turkish Petroleum Corporation ("TPC") (Türkiye Petrolleri Anonim Ortaklığı), a legal entity subject to private law, was founded in 1954 by Law no. 6327 to carry out activities in hydrocarbon exploration, drilling, production, refinery and marketing. The TPC is the only national oil company involved exclusively in the upstream (exploration, drilling and production) sector. The TPC statute was amended by the Decree no. 60 dated May 20, 1932 regarding the Public Economic Enterprises and State Economic Enterprises, and the TPC became a subsidiary company of the Turkish Petroleum Institution ("TPK") (Türkiye Petrol Kurumu). However, on June 18, 1984, the TPK was eliminated and the TPC became a public economic enterprise whose shares are owned by the state, in accordance with Statutory Decree no. 233 regarding State Economic Enterprises.

Afterwards, due to changes in the legislation, the TPC was only authorized to conduct exploration and drilling activities, and the other subsidiary companies were included in the privatization program, separating from the TPC. Today, the Market is no longer

represented by the TPC and its subsidiaries, but the TPC continues its operations as the sole legal entity. The TPC, which sets targets for meeting Turkey's continuously increasing petroleum and natural gas demand from its own resources, is proceeding with the integration process of international petroleum companies and carrying out studies on the establishment of competitive, secure, transparent and balanced market conditions for all petroleum companies engaging in the oil and gas exploration business in Turkey's petroleum market.

The petroleum exploration and production sector has been an entirely competitive market in terms of domestic and foreign capital since 1954. Even though the TPC, as the national petroleum company of Turkey, enjoys certain privileges compared to other companies active in the Turkish petroleum industry, these privileges are not to impede free competition.

There are approximately forty (40) companies operating in the distribution sector, according to information provided by the State Planning Organization and Energy Market Regulatory Authority ("EMRA") (Enerji Piyasası Düzenleme Kurumu). Turkey has only one refinery company, so competition is concentrated in the distribution sector.

Regulatory Framework

Petroleum Law

The purpose of the Petroleum Law is to ensure continuous and effective exploration, development and assessment of petroleum resources in Turkey, in accordance with the principle of national interest. Under the Petroleum Law, the definition of “petroleum” includes: (i) natural hydrocarbons, in liquid or gaseous form, which are produced or are able to be produced from the earth; (ii) asphalt and other solid hydrocarbons dissolved in liquid petroleum or gas, or suitable for production with liquid petroleum or gas; and (iii) hydrocarbon products derived from the substances referred to in (i) and (ii). Accordingly, exploration and exploitation of both natural gas and crude oil are carried out subject to the Petroleum Law.

The General Directorate of Petroleum Affairs (“GDPA”) and the Ministry of Energy and Natural Resources are the regulatory authorities for upstream activities (such as exploration and exploitation activities) with respect to petroleum rights. It should be noted that downstream petroleum activities (such as distribution, transmission, transportation, storage etc.) are not within the scope of the Petroleum Law and are regulated by the Petroleum Market Law. The regulatory body for downstream petroleum activities is EMRA.

In order to engage in exploration activities, an exploration license must be obtained from the GDPA. An exploration license granted for on-shore exploration areas may be obtained for a period of four (4) years and may be extended for an additional period of two (2) years.

As per the Petroleum Law, an exploitation license must be obtained from the GDPA in order to perform exploitation activities. An exploitation license is granted for a period of twenty (20) years and may be extended twice, both times for a maximum period of ten (10) years. Thus, the maximum term of an exploitation license is limited to forty (40) years.

Petroleum Market Law

The purpose of the Petroleum Market Law is to (i) create an environment in which commercial petroleum is supplied safely from domestic and foreign sources to consumers through a transparent, fair and consistent market, and (ii) implement the necessary supervision to achieve this aim.

The Petroleum Market Law outlines four (4) major matters; the regulatory authority to monitor and control the activities in the Market, licensing, proprietorship and expropriation, and determination of prices and pricing. One of the most important duties of EMRA regulated under the Petroleum Market Law is to finalize license applications and determine license fees. License applications should be evaluated within sixty (60) days of the application date, and applicants should be notified thereafter. A proper justification for rejection of an application should be given to the applicant. EMRA is also entitled to update and terminate licenses temporarily or permanently.

The Petroleum Market Law envisages various types of licenses which are to be obtained by investors according to their intended Market activity. Entities performing activities which require a license were required to submit an application to EMRA for the required license within a year of the Petroleum Market Law’s enactment.

License Regulation

Under Turkish law, companies are required to obtain petroleum market licenses to perform petroleum market activities. Petroleum market licenses can be obtained by submitting the necessary applications to EMRA and such licenses can be granted for a maximum period of forty-nine (49) years. Types of petroleum market licenses are specified under Article 6 of the License Regulation. In the article, the types of licenses are set forth as follows: refinery owner license, processing license, lube oil license, storage license, transmission license, eligible consumer license, bunker delivery license, distributor license, transportation license, and retailer license.

Companies intending to obtain petroleum market licenses shall apply to EMRA and (i) submit the License Application Petition and the Undertaking, samples of which are attached to the License Regulation as Annex 1 and 2 respectively, and (ii) provide the necessary documents and information in accordance with “Explanations about License Application and Notification in the Petroleum Market,” set forth under the resolution of the Board. Pursuant to Article 10 of the License Regulation, license applications are evaluated by the Board within sixty (60) days of the application and a decision regarding the application shall be given by the Board at the end of this period.

Refinery owner license holders may conduct activities involving oil processing within their facility or around their facility area, and store and transport oil

through pipelines to other facilities nearby (provided that these two activities are included in their licenses). They may also distribute fuel products through their own distribution company.

A company must hold a distributor license in order to conduct fuel oil importation activities, and such importation activities can be conducted with regard to only the fuel oils which are within the scope of the subtitle of the relevant license held by the company. They may also distribute wholesale fuel products to independent consumers and transport fuel products through pipelines to facilities located near storage facilities. Finally, according to Article 33 of the License Regulation, distributor license holders can perform bunker fuel delivery, storage, mineral oil and/or transportation activities without obtaining any further licenses, provided that their licenses include statements to this effect. A holder of a distributor license must be a company incorporated either as a joint stock or limited liability company and the minimum paid-in share capital of such a company must be TL 10,000,000.

Furthermore, pursuant to Article 4(b) of Board Decision no. 2380 dated December 29, 2009, companies holding distributor licenses can import crude oil, fuel oil and fuel oil considered bunker fuel, provided that a statement allowing this is included in their licenses. The abovementioned company's marketing production must comply with the scope of importation activities performed by the company.

Retailer license holders may sell fuel or bunker that they receive from their distributors, acting as fuel or bunker stations according to the definitions in their

license, and as retailers with or without stations, depending on the category of their license.

Companies or real persons who transport and/or sell lube oil and base oil are required to obtain a mineral oil license from EMRA.

A transportation license is to be obtained in order to conduct transportation activities. Transportation license holders may perform transportation services of petroleum using transport vehicles.

Processing license holders may operate processing facilities and produce new products, and/or change the type and quality of petroleum and other chemical substances, except for the production of mineral oil.

Storage license holders are entitled to operate a storage facility where petroleum products can be stored.

Transmission license holders are entitled to transmit petroleum through pipelines and to operate transmission facilities.

Eligible consumer license holders, depending on the type of consumption, may procure furnace oil, fuel oil and diesel directly from the refineries or distributor license holders.

The bunker delivery license enables its holders to (i) procure bunker from refineries domestically or from overseas, distributors or other bunker delivery license holders, and (ii) deliver bunker which is subject to the transit regime or that has entered into free circulation to consumers or other bunker delivery license holders.