



SCREENING CHAPTER 15

ENERGY

AGENDA ITEM : CONVENTIONAL SOURCE OF ENERGY

State Aid to Coal Industry



**SCREENING CHAPTER 15
ENERGY**

AGENDA ITEM : CONVENTIONAL SOURCES OF ENERGY

State Aid to the Coal Industry

**Country Session: The Republic of TURKEY
14-15 June 2006**



CONTENT

- **Overview**
- **Legal Framework**
- **State Aids for Investments**
- **Encouragement of Investments and Employment**



OVERVIEW

There is no special aid system for coal industry as it is defined in the Council Regulation No1407/2002.

General incentive scheme applies to the investments on coal industry and employment.



LEGAL FRAMEWORK

- Decree No:2002/4367 on state aids for investments (Official Gazette: 09 July 2002, no. 24810)
- Decree No:2000/1822 on state aids for SME investments (Official Gazette: 18 January 2001, no. 24291)
- Communiqué on the implementation of the State Aids for Investments 2002/1 (Last amended by Communiqué 2006/2) (Official Gazette: 30 July 2002, no. 24831)
- Communiqué on the implementation of the State Aids for SME Investments 2001/1 (Official Gazette: 18 February 2001, no. 24322)



LEGAL FRAMEWORK (CONT'D)

- Law on Encouragement of Investments and Employment and Amendment of Certain Laws No: 5084 (Official Gazette: 06 February 2004, no. 25365) and amending Law No: 5350 (Official Gazette: 18 May 2005, no. 25819)
- Communiqué on the implementation of energy support No:2005/1 (Official Gazette: 03 August 2005, no. 25895)
- Decree Law on State Owned Enterprises No: 233 (Official Gazette: 18 June 1984, no. 18435)



CABINET DECREES CONCERNING STATE AIDS TO INVESTMENTS (2002/4367 and 2000/1822)

Coal producers may claim for investment incentive certificate and benefit from :

- Exemption from Customs Duties and Fund Levies for machinery and equipment.
- Value Added Tax (VAT) Exemption for imported and domestically purchased machinery and equipment.
- Credit allocation from the budget for SMEs and investments in underdeveloped regions.



LAW ON ENCOURAGEMENT of INVESTMENTS and EMPLOYMENT (Law No: 5084 and 5350)

The purpose of the programme is to contribute to the regional development by encouraging investments and increasing employment opportunities in underdeveloped regions (49 provinces) via tax and social security incentives, energy support and free of charge land allocation.



LAW ON ENCOURAGEMENT of INVESTMENTS and EMPLOYMENT (Law No 5084 and 5350) (CONT'D)

State aid measures implemented in the programme

- income tax relief,
 - compensation to social security employer contribution,
 - free land allocation,
 - energy support,
- depending on the number of employee or additional job creation.



•Two State Owned Enterprises (SOEs) in energy sector are receiving Capital and Duty Losses :

1 – SOE Receiving Capital Transfers:

- TTK (Hardcoal)

2 – SOEs Receiving Duty Losses :

- TTK (Hardcoal)
- TKİ (Lignite)



Capital Transfers: Legislative Framework

Decree Law No. 233

Article 37: The Treasury shall transfer capital for investment and operational deficits of SOEs

Article 36: The Treasury may offset its dividend receivables as well as other receivables to its capital and duty loss obligations to SOEs.



Capital Transfers: Scope

- TTK is making loss. As an owner, Treasury transfers capital to TTK.

Capital Transfers: Features

- These transfers are limited to;
 - Availability of Budgetary allocations
 - Wage and salary expenses of entities
- If the SOE recovers, transfer may be cancelled or decreased

**Capital Transfers to TTK****Million TRY (Million Euro)**

	2004	2005
TTK (Hardcoal)	382 (216)	380 (227)

Source: Undersecretariat of Treasury



Duty Losses: General Scope and Legislative Framework

The SOEs may be assigned to conduct services and/or Council of Ministers may set their prices for general economic interest.

Decree Law 233, Article 35 authorizes The Council of Ministers to do so and states principles of such duties. Based on this statement, further Decrees have been supplied for each duty. Basic principles are:

- a) Cost of duties plus a 10% margin shall be transferred to SOEs from the budget.
- b) Costs to be audited and finalized by the Treasury before payment. This procedure takes some time and payments take place at least after a year. For this reason, 10% margin may be deemed as a compensation for delays.
- c) All applications are subject to budgetary constraints.



Duty Loss Applications: TKI (lignite) and TTK (hardcoal)

(The last Decree of Council of Ministers: 2005-8770)

- a) TKI and TTK have been assigned to supply lignite and hardcoal to the poor in need
- b) Started in year 2003
- c) Almost 1.5 millions of poor families have been receiving as of 2005
- d) Amounts accrued in this regard: TRY 93 (€ 53) in 2003, TRY 166 (€ 101) in 2004, and TRY 231 (€ 138,2) in 2005.

**Duty Loss Payments:****Million TRY (Million Euro)**

	2004	2005
TKİ (Lignite)	164 (93)	229 (137)
TTK (Hardcoal)	2 (1,1)	2 (1,2)
TOTAL	166 (94,1)	231 (138,2)

Source: Undersecretariat of Treasury



Thank You For Your Attention