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Abstract

LIBERALISATION OF TURKISH NATURAL GAS MARKET AND PROGRESS MADE IN DISTRIBUTION SECTOR

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Topic: Developing Markets

Background

Like elsewhere in the world, gas constitutes the major share in energy consumption of Turkey. Recent surveys suggest that until 2020, the gas consumption of Turkey is expected to increase by five fold. As the indigenous energy resources are not sufficient to meet the increasing energy demand parallel to the development, environmental issues and the policy of diversifying energy sources brought natural gas into the energy scene in Turkey. Mid Asian and Caspian Region's hydrocarbon potential has crucial importance in meeting Turkey's growing domestic gas demand parallel to its development, growing environmental concerns and the policy of diversifying energy resources.

In that scope, import of natural gas started to Turkey in 1988 by the Petroleum Pipeline Company (BOTAŞ) who had the monopolistic right on the import, transmission, distribution and selling of natural gas throughout the country at that date. In 13 years period, natural gas consumption had risen to 16 bcm and when the decision was given to liberalise the natural gas market in the country, gas had being consuming in 7 distribution regions (7 cities) with a total amount of 2.8 bcm. After the start of the liberalisation process in the natural gas market with the enactment of the law number 4646 in 2001 which was followed by the foundation of Energy Market Regulatory Authority, great progress has been made in all segments of the gas market especially in the distribution sector.

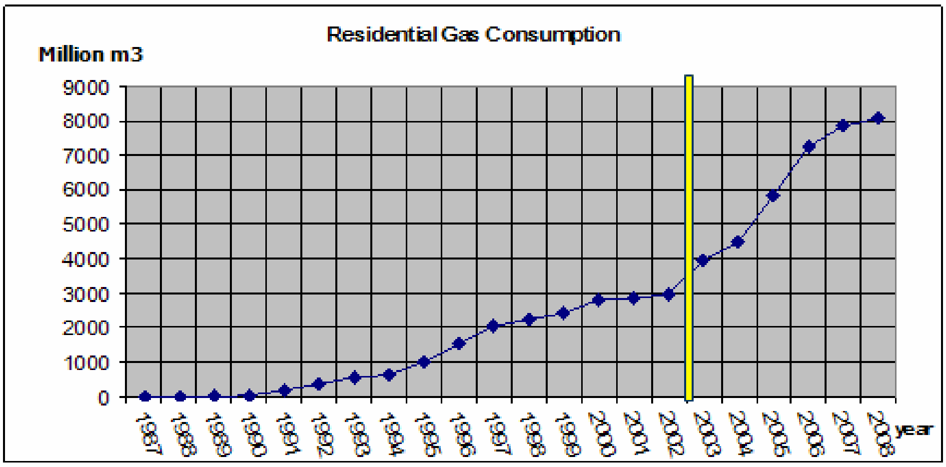
On the other hand, as being an energy bridge between the East and the West, Turkey is also charged with the mission of delivering the Mid Asian, Middle East and Caspian Region's energy resources to the European and World markets with ultimate aim of source diversification and security of supply. With this purpose several international gas pipeline projects are underway.

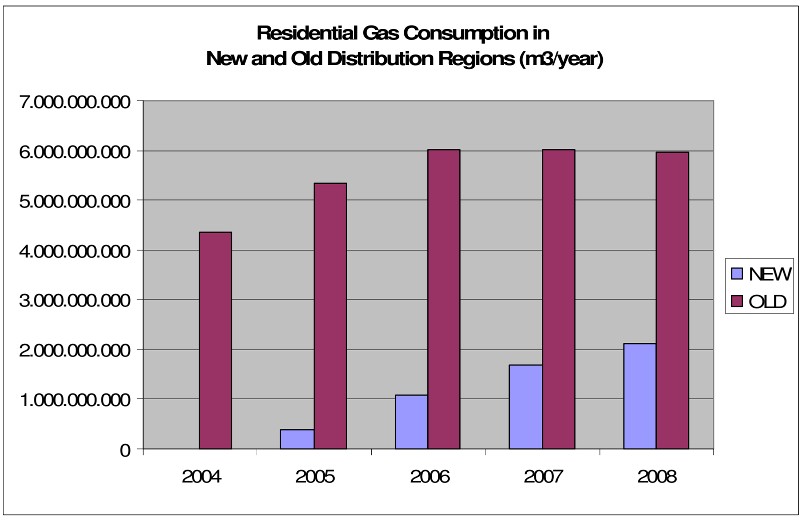
Aim

With the presentation to be prepared, it is aimed to give to the audience comprehensive information about the progress made in the Turkish natural gas market in 6 years free market implementation period from legislation, private sector involvement and infrastructure point of views. This would be an instructive example for the developing gas markets. On the other hand the interfaces of internal market, Turkish market integration process to European markets and Turkey's East-West energy corridor projects are to be brought into the delegates' attention.

Scope of the Presentation

Turkey has started to use natural gas in 1988 within the scope of the first natural gas sales and purchase contract signed with Russia. Currently the gas supplies are ongoing under 7 different contracts and a market size of 36 bcm has been reached in 20 years. Liberalization process started with the enactment of the Natural Gas Law Nr. 4646 in 2001 and followed by the foundation of Energy Market Regulatory Authority (EMRA). After the performance of the first distribution region licence tender in the mid of 2003 up to date, drastic change has occurred in gas consumptions especially in the residential sector. With the start of the private sector involvement into the gas distribution business, in 6 years time, almost all of the country is gasified and the consumption rate percentage increase of gas in residential sector has doubled. Today the total size of the distribution sector has reached to 8 bcm.





Of course the well developed transmission infrastructure had an important share in this progress. Another important point in this development is to have a "blue chip companies" involved in gas distribution business of the country. Additionally, current regulatory framework which has been based to the European Union legislation covers promoting provisions for the market development through investments. The provisions for key issues like prevention of monopoly, non-discrimination, legal separation, security of supply, privatization, eligibility, cross-subsidization and transparency have given place in the legislation under the market control, regulation and monitoring responsibility of EMRA.

On the other hand, to reinforce the security of supply, it is required to have a supply diversification in addition to the other market oriented measures that are still required to be taken. In this respect, due to its geographic settlement Turkey is positioned good enough to reach the energy sources of the Caspian basin, middle-east and likely other sources to create internal source diversity. This positioning makes Turkey a natural bridge for transportation of these energy sources to Europe and to world markets with ultimate aim of realising the east-west energy corridor. With this purpose Iraq-Turkey Gas Export, Egypt-Turkey Natural Gas Pipeline, Trans Caspian Natural Gas Pipeline, Turkey-Greece-Italy Natural Gas Pipeline and Turkey-Austria Natural Gas Pipeline (Nabucco) Projects are underway.

Of course a fully liberalized market structure will inevitably increase Turkey's role as a bridge for energy trade between Asia and Europe.

Conclusions

Under this regime besides the steps taken in other segments of the market, the distribution sector starting from the first tender that was realized in the mid of 2003, has boomed. In 5 years approximately 66 % of the investments are completed by distribution licensees, almost all of the country is gasified and gas consumption percentage increase is nearly doubled. Driving force behind this noteworthy progress is the determination of EMRA implementing the introduced model and support given to the private sector, confidence of private sector to market liberalisation and privatisation and vigorous program executed for the extension of transmission pipelines throughout the country by the national transmission company BOTAŞ which still carries the other activities in the natural gas sector. Reductions in end user gas prices through tendering process have fostered the reach of right penetration rates under the present investment circumstances of Distribution System Operators.

Turkish natural gas market legislation and applications can be deemed ahead of many member states of European Union especially in distribution sector. In this respect, Turkish gas distribution sector could be a good case for developing markets with its successful applications and lessons learned although the country is still in the development period of the gas market.