

Government Incentives and Purchasing Guarantees for Electricity Generation from Renewable Energy Sources

The importance of renewable energy sources have increased in the last years by taking into account the environmental damages occurred due to fossil fuels and the economic, political and technical risks attributed to fossil fuel sources and means which increase, promote the production of electricity from these sources are provided.

In Turkey incentives and feed-in tariffs are provided to producers pursuant the Law on Use of Renewable Energy Sources for Electricity Production numbered 5346 (“RENL”) and the Law on Electricity Market (“EML”) and other related legislation.

RENL was prepared and entered into force for the purposes of extending the use of renewable energy sources for electricity generation, increasing the source diversity, decreasing the greenhouse gas emissions together with the protection of environment and the development of the manufacturing sector which is required for

reaching the law's objectives.

The renewable energy sources are defined under RENL as hydraulic, wind, solar, geothermal, biomass, gas acquired from biomass, non-fossil energy sources such as energy from wave, current and tide.

The prices, terms and payments that renewable energy source producers may benefit from are defined pursuant to the "Renewable Support Mechanism" under the RENL. In addition, additional price incentives are provided in case the mechanical and/or electro-mechanical parts which are used in production facilities which use renewable energy sources are manufactured in Turkey.

On the other hand, the EML sets out the generation, transmission, distribution, wholesale, retailing and retailing services, import, export of electricity; rights and obligations of all real persons and legal entities directly involved in these activities. Generation is defined as the transformation of energy resources into electricity in generating facilities under the EML. Within this scope, legal entities which are holders of generation license are provided incentives via discounts within areas defined under the law.

Furthermore, energy investment projects which fulfill the necessary conditions are provided different incentives within the scope of the General Incentive Scheme.

Feed-in Tariffs under the RENL

As per Article 6 of the RENL the tariffs under the law will be applied for ten years to the holders of generation licenses which is in operation

or will be in operation from the effective date of 18/5/2016 of the law to the date of 31/12/2015, which are subject to the Renewable Support Mechanism. It is also determined within the same article that the amount, price, term and resources which will be applied for the generation facilities that will be in operation after the date of 31/12/2015 which hold Renewable Documents¹ will be set out by the Council of Ministers provided that the prices under the table I of the law are not exceeded.

In the aforesaid scope, the Council of Ministers with their decision numbered 2013/5625 determined that the tariffs under the law will be applied for t to ten years e holders of generation license that will be in operation from the date of 1/1/2016 to the date of 31/12/2020, with Renewable Documents which are subject the Renewable Support Mechanism. Therefore from the aforementioned date the following feed-in tariffs will be applied to the holders of generation license based on hydroelectricity, wind, geothermal, biomass and solar:

Energy Source	Applied Tariffs (USD cent/kWh)
a. Hydroelectricity	7,3
b. Wind Energy	7,3
c. Geothermal energy	10,5
d. Biomass (including landfill gas)	13,3
e. Solar	13,3

Manufacturing Addition Pursuant to the RENL

As stated above, as per Article 6/B of the RENL, if the mechanical and/or electro-mechanical parts used within the facility are produced

within Turkey the tariff under Table II will be added to the prices set out within the feed-in tariff for five years from the date of entering into operation for the electricity provided to the transmission and distribution networks produced by the facilities which use renewable energy and entered into operation before the date of 31/12/2015.

As per the aforementioned decision of the Council of Ministers the additional feed-in tariffs will be applied for five years from the date of entering into operation for the electricity provided to the transmission and distribution networks produced by the facilities with Renewable Documents which enters into operation from the date of 1/1/2016 to the date of 31/12/2020.

Within this scope, the manufacturing additional feed-in tariff differs between 0,4-3,5 USD/kWh as per the type of the facility and the parts used.

Incentives Offered by the EML

The following incentives shall be provided under the EML to the holders of the generation license:

1. For the legal entities with generation license which shall be placed into operation until 31/12/2020:

- A discount of fifty percent shall be applied over the system utilization fees for the transmission system for a period of five years as of the date of placement of the plant into operation.
- During the investment term of the generation plants, processes and documents realized with regards to the generation plants shall be exempt from stamp tax and charges.

2. A discount of eighty five percent shall be applied to the payments for authorization, lease, servitude, right of usufruct from energy transmission lines given by the relevant authorities including Turkish Electricity Transmission Corporation for the first ten years of investment and operation from the date of authorization. This discount will be applicable to electricity generation facilities using renewable energy sources which will enter into operation until 31/12/2010 including the facilities which are already in operation on the date of effectiveness of the law (14.03.2013).

The Incentives Applicable to the Investments in Renewable Energy Area within the Scope of the General Incentive Scheme

Pursuant to the Decree on State Aids to Investments numbered 2012/3305, an incentive scheme involving the inducement of general, regional, large scale and strategic investments was constituted. The investment may benefit from these incentives if the conditions stipulated for these investment areas under the Decree investment are fulfilled. Within the incentive scheme VAT Exemption, Customs Duty Exemption, Tax Deduction, Social Security Premium Support (Employer's Share), Income Tax Withholding Support, Interest Support, Land Allocation, VAT Refund is provided.

The applicability of the aforesaid incentives and the application rates depends on the incentive area that the investment is within and whether the required conditions are fulfilled or not. In this regard,

investments within the renewable energy area may benefit from different incentives if the required terms are possessed.

For example, production of turbines and generators for the generation of energy from renewables and flaps used for generation of energy from wind are defined as a priority investment. As a result the investments in these areas may benefit from the regional supports applied to the 5th region pursuant to the decree. Also, incentives under the large scale investment may be applied to manufacturing of machinery (including electrical machinery and equipment) if the minimum amount of investment is 50 million TL.

Government Incentives for Natural Gas

Within the frame of the Council of Ministers Decision numbered 2013/4288 that was announced with the Official Gazette dated February 15, 2013 and numbered 28560, it was ruled that specific investments of natural gas-based electricity production shall benefit from the incentive legislation.

The said Decision amended the annex titled “Non-Supported Investments and Supports Subject to Certain Conditions” (Annex-4) of the previous Council of Ministers Decision regarding the “Government Supports on Investments” numbered 2012/3305 and included the investments of natural gas-based electricity production in the incentive legislation, provided that they were granted with Energy Market Regulatory Authority licenses prior to June 19, 2012.

Incentive legislation in Turkey comprises of the support of general,

regional, large-scale and strategic investments. Below geographical investment regions are designated for the implementation of such incentives;

1.Region	2. Region	3. Region	4. Region	5. Region	6. Region
Ankara	Adana	Balıkesir	Afyonkarahisar	Adıyaman	Ağrı
Antalya	Aydın	Bilecik	Amasya	Aksaray	Ardahan
Bursa	Bolu	Burdur	Artvin	Bayburt	Batman
Eskişehir	Çanakkale	Gaziantep	Bartın	Çankırı	Bingöl
İstanbul	Denizli	Karabük	Çorum	Erzurum	Bitlis
izmir	Edirne	Karaman	Düzce	Giresun	Diyarbakır
Kocaeli	İsparta	Manisa	Elazığ	Gümüşhane	Hakkari
Muğla	Kayseri	Mersin	Erzincan	K.maraş	Iğdır
	Kırklareli	Samsun	Hatay	Kilis	Kars
	Konya	Trabzon	Kastamonu	Niğde	Mardin
	Sakarya	Uşak	Kırıkkale	Ordu	Muş
	Tekirdağ	Zonguldak	Kırşehir	Osmaniye	Siirt
	Yalova		Kütahya	Sinop	Şanlıurfa
			Malatya	Tokat	Şırnak
			Nevşehir	Tunceli	Van
			Rize	Yozgat	
			Sivas		

General Incentives

For an investment to be eligible for the General Incentive System, minimum fixed investment amount shall be 1.000.000.-TL for regions 1 and 2 and 500.000.-TL for regions 3, 4, 5 and 6. The supports enabled

under this system are as follows;

- **VAT Exemption:** To enjoy this exemption allowed under the VAT Law numbered 3065, investors shall first obtain “Investment Incentive Certificate” issued by the Ministry of Economy or other competent bodies authorized by this Ministry. Within the scope of such certificate, an incentive of VAT exemption is granted to the investors in the purchase of machinery and equipment for their investments.
- **Customs Duty Exemption:** Under the Investment Incentive Certificate, an exemption from Customs Duty is allowed for investors in their machinery and equipment purchases from abroad to be used in their investments.
- **Income Tax Withholding Support:** This is applicable only for the investments in 6. region. If, within the scope of an Investment Incentive Certificate, additional employment is created through the investment, income tax on wages shall not be applicable for 10 years, as of the partial or full start-up of business, provided that the amount of tax benefit shall not exceed the taxes calculated on the legal minimum wage.

Investments of natural gas-based electricity production having obtained licenses prior to June 19, 2012 can benefit from this incentive.

Regional Incentives - Preferential Investments

Investments that can enjoy incentives under the Regional Investment System are determined on the basis of provinces and sectors. Natural gas is not listed among such sectors however it is indicated that certain investment areas can benefit from the regional supports enabled for the 5. region. Such specified investment categories are called

“Preferential Investments”.

In this context, “LNG and underground natural gas storage investments at least at the amount of 50.000.000.-TL” are considered as Preferential Investments, enabling them to enjoy the incentives granted for 5.region investments. Below incentives can be provided in such cases;

- Customs Duty Exemption
- VAT Exemption
- Tax Reduction
- Support on the employer's social insurance contribution
- Land allocation for investment
- Interest Support
- Income Tax Withholding Support (applicable for region 6 investments)
- Support on the employee's social insurance contribution (applicable for region 6 investments)

If these investments are already located at 6. region, more advantageous supports applicable in that region can be applied.

Strategic Investment Incentives

Rather than defining sectors, certain criteria are set forth for investments to fall under the scope of Strategic Investments.

Investments meeting all the below criteria, aimed at the production of import-dependent goods, are deemed as Strategic Investments;

a) Minimum fixed investment amount shall be over 50.000.000.-TL,

b) Total domestic manufacture capacity pertaining to the product subject to investment shall be below its import rate,

c) Added value to be attained via such investment shall be at least 40%,

d) Total export amount of the product reached within the past 1 year shall be above \$50.000.000.-USD. This criterion does not apply for the investments related to the production of goods that are not manufactured in Turkey.

Incentives supplied to Strategic Investments are as follows;

- Customs Duty Exemption
- VAT Exemption
- Tax Reduction
- Support on the employer's social insurance contribution
- Land allocation for investment
- Interest Support
- VAT Return
- Income Tax Withholding Support (applicable for region 6 investments)
- Support on the employee's social insurance contribution (applicable for region 6 investments)

Council of Ministers Decision numbered 2012/3305 has been recently amended via the “Decision Revising the Previous Decision on Government Supports”, as published with the Official Gazette numbered 29458 on August 27, 2015 and a new paragraph has been inserted in the Article titled “Strategic Investments”. This regulation has been made in view of supporting Turkey’s attempt to encourage the private sector to make a 3 billion USD natural gas storage investment.

The mentioned added section stipulates that the Preferential

Investments having a fixed investment amount over 3 billion TRY shall be deemed as Strategic Investments whereas the maximum interest support to be allocated to such investments is determined as 700.000.- TL.

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