

Oil & Gas Regulations in Turkey

Petroleum as one of the energy resources has great importance in human lives. Almost every sector in an economy directly or indirectly depends on petroleum. Therefore, changes in petroleum market and petroleum prices cause various impacts on both national and world economies through chain reactions. The first step towards natural gas transportation and trade in Turkey was taken with the 25-year contract signed between BOTAŞ and Soyuzgaz Export (USSR) in 1986. The first actual natural gas import was carried out in 1987. The decision of Petroleum Pipeline Corporation (BOTAŞ) in 2011 to decline extending its natural gas purchasing contract with Gazprom Export for purchasing up to 6 billion meter cubes of natural gas per year was an important development in the Natural Gas Market, increasing the share of the private sector.

Main legislation in Oil & Gas Market in Turkey

Energy Market Regulatory Authority ("EMRA") provided with legal entity holds administrative and fiscal autonomy. EMRA regulates oil and gas extraction. Main and mostly applied laws Oil - Gas market is Natural Gas Market Law numbered 4646, Petroleum Market Law numbered 5015, and Liquefied Petroleum Gas (LPG) Market Law numbered 5307. There are also specific environmental laws about oil and gas sectors. It is a must to comply with Regulation on Statutory Permission and

Licenses Required to Be Obtained In Accordance With Environmental Law dated April 29, 2009 and numbered 27/214. On the other hand, it should always be noted that Turkey is a contracting party to many conventions and international agreements with regards to International Oil and Gas Market. In this respect, certain international agreements where Turkey is a party such as International Convention On Readiness, Response and Cooperation With Regards To Oil Pollution and It's Annexes dated November 27, 1992. (London) International Agreement on Establishment of an International Fund Regarding the Indemnification of the Damages Caused by Oil Pollution dated November 27, 1992 (London).

Furthermore, it should also be noted that there are a lot of bilateral agreements between Turkey and other countries.

Required licenses for market activities

In particular, a license may be issued by authorities, to allow an activity that would otherwise is forbidden. It may require paying a fee and/or proving a capability. The requirement may also serve to keep the authorities informed on a type of activity, and to give them the opportunity to set conditions and limitations. In order to carry out oil and gas extraction process within the territories of Turkey, it is must to apply for and to obtain a license. Such licenses are granted by EMRA in Turkey. According to mentioned environmental regulations, activities in oil and gas sector are deemed high polluter for the environment. Thus, any real person or legal entity operating in oil and gas sector shall apply to the Ministry of Urban Planning and Environment in order to obtain certain consents and certificates.

Oil and gas reservoirs are all considered as government owned territories according to Turkish Petroleum Law numbered 6491. According to Turkish Petroleum Law numbered 6491 territories of Turkey

and in this respect the application/license process for such is divided into two main categories as mainland and sea. Furthermore, in connection with the international laws, sea territories of Turkey is sub categorized as continental shelf and further territories. According to the abovementioned law, any research and extraction activity within the further territories on sea (i.g. exclusive economic zone) shall be subject to the consent of the Turkish Council of Ministers. Out of territorial sea survey permit subject to Council of Ministers. According to a Decree of Council of Ministers dated August 15, 1974 and numbered 7/7871 Oil Carriage by Pipelines Joint Stock Company ("BOTAŞ") has been established to manage and operate the oil pipelines in Turkey. Although the crude oil pipelines are owned by BOTAŞ currently, monopoly rights of BOTAŞ on natural gas import, distribution, sales and pricing that was granted by the Decree of Natural Gas Utilization No. 397 dated February 9, 1990, were abolished by the Natural Gas Market Law numbered 4646. Natural Gas Market Law covers import, transmission distribution, storage, marketing, trade and export of natural gas and the rights and obligations of all real and legal persons related to these activities.

Such licenses are granted in return of the certain cash deposits. Please find below a short list of the tariffs applied by EMRA as of 2013;

- License fee for oil refiner operators is 415.000-TL (approx. € 151,000.-EUR),
- License fee for carriage of oil through maritime transport is 3.000-TL for each vessel (approx. € 1,200.-EUR).

To obtain a license is the initial step in Turkey in order to engage oil and gas market activities. Once the required license is obtained from EMRA, then this would suffice all the further requirements. Furthermore, there isn't any provision set forth within the relevant regulations limiting the activities of the foreigners in this market. Whether onshore or offshore, oil and gas transportation is subject to licenses as well. Transportation process in this sector is strictly regulated due to security reasons and to prevent any black market activity. Furthermore, there is an improved operating network of gas and oil pipelines in Turkey. In this respect, it

should be noted that the construction of pipelines is subject to many different regulations and different procedures shall apply depending on the location. In addition, construct pipeline or storage facilities require specific licenses to be obtained from Energy Market Regulatory Authority and BOTAŞ. Furthermore, an application and a consent requisition shall be filed before the relevant municipality and/or other concerned directorates (e.g. Directorate for Motorways).

Licenses are granted for a maximum period of 49 years. This period can be subject to renewals and extensions based on the requisition of the licensee. It should be noted that such extension request shall be filed before the Energy Market Regulatory Authority at least two (2) months prior to expiry.

In accordance with the Regulation on Certification in Natural Gas Market dated September 25, 2002 and numbered 24887, there are two types of certifications for natural gas; Construction And Service Certificate, Domestic Installation And Service Certificate.

It should be noted that such certificates are granted for a minimum period of 10 years and a maximum period of 30 years in gas market. Furthermore, above indicated certificates are granted by Energy Market Regulatory Authority. However, it should also be borne in mind that for production works in gas market Petroleum Works General Directorate is the authorized body to grant permissions.

In addition, all permits and licenses related to the free zones regulates in Free Zones Law numbered 3218. In this respect, except of the general approvals and licenses required to be obtained for oil/gas market operations, it is a must to obtain the consent of the local free zone directorates.

In accordance with the Article 9 of Turkish Petroleum Law numbered 6491, any oil prospector and/or owner shall pay as royalty one out of eight (1/8) of total oil produced. However, no royalty shall be paid for any oil business related to search and operating licenses. In the light of the above explanation, royalties shall be calculated based on market value of local crude oil as explained within Article 10 of the Petroleum

Market Law numbered 5015. As per the gas, royalty calculations shall be made based on the sale price to free consumers and/or distribution companies. Licenses may be denied by EMRA. There is an appeal process if licenses are denied. Ministry of Energy and National Resources in Turkey is the first authorized institution to conclude the claims rose in this respect. Furthermore, it is always possible to bring lawsuits against such denials before Administrative Courts.

There are certain areas indicated by law where the extraction activities are not allowed such as military restricted zones and security zones. However, any extraction activity in these areas is subject to consent of Council of Ministers. In this respect, Council of Ministers shall also obtain the opinions of the relevant institutions. In addition, fracking is currently not restricted in Turkey. However, for non-traditional extraction practices to be held within the territories of Turkey, EMRA is entitled either to non-grant the license or request for extra guarantees/warrants.

Conditions for Oil & Gas companies

The petroleum industry includes the global processes of exploration, extraction, refining, transporting (often by oil tankers and pipelines), and marketing petroleum products. Turkey Petroleum Corporation and Çalık Energy selected petroleum (crude oil) exploration and production companies in Turkey. There aren't any specific provisions set forth with regard to the incorporation and shareholder structures of the companies operating in the oil/gas market. Furthermore, abovementioned regulations and law mention either for real persons or legal entities. However, based on some practical reasons and internal affairs, oil and gas companies generally incorporated in form of joint stock companies in Turkey. On the other hand, it should be noted that the Turkish Commercial Code numbered 6102 does not set forth any minimum number of shareholders for joint stock companies. Incorporation of the legal entities engaging in the oil and gas market

activities in Turkey are regulated through several communiqués of the relevant ministries. In this respect, several restricted activities have been set forth depending on the exact activity within the oil - gas market of the legal entity. In example, a retailer dealing with liquid petroleum gas ("LPG") shall sign up with one LPG Distribution and Marketing Company only. On the other hand, there isn't any professional status requirement for the shareholders of the legal entities dealing in this market. However, it should be noted that depending on the activities of the legal entity it might well requested to employ certain technical staff. There isn't any specific and general capital requirement set forth within the regulations shaping the market. However, in case of a foreign investment and prior to apply for certain licenses it would likely to be required so. Accreditation business in Turkey is strictly in the monopoly of the Turkish Accreditation Agency which is established by the law numbered 4457 and dated October 27, 1999. Thus, Turkish Accreditation Agency is the only authorized institution to provide accreditation services to conformity inspection institutions and to determine/change criterion for such.

Oil & Gas Market with regard to Labor Law

Generally, rules that apply to conditions of the workers working for oil and gas sector are set forth within the Labor Law numbered 4857 and its regulations. According to such regulations it is a must for the employers to regularly make the risk analysis at their work places. Based on the results of such risk analysis, each employer is obliged to establish certain security measures. Furthermore, according to a specific piece of regulation, many workers in oil and gas sector are obliged not to work for more than seven and a half hour on a daily basis. This provision shall also be applied for mining workers and alike. On the other hand, except of the regular inspections of the relevant institutions and the Ministry of Social Security and Labor, the officials

make random inspections as well. It should also be noted that, such inspections take place when a claim by a third party is filed. Furthermore, any employer that has been fined previously would face much more of these random inspections. Turkish Labor Law numbered 4857 and Law on Work Permits of Foreigners numbered 4817 shall be applied for local workers. Thus, it should always be kept in mind that, unless there is a specific bi-lateral agreement between the countries, all companies willing to employ a foreigner staff in Turkey, is required to employ at least five (5) Turkish citizens. In other words, in order to employ one (1) foreign staff, it is a must to employ five (5) Turkish citizens for each foreigner. However, with regards to the legal entities granted with a research license, oil prospecting license and refining license are excluded from the abovementioned explanations. On the other hand, in accordance with Article 15 of Turkish Petroleum Law numbered 6491, foreign workers to be employed for legal entities granted with a research license, oil prospecting license and refining license are excluded from the general practice of work permit applications and the provisions of Law on Work Permits of Foreigners numbered 4817. In this respect, Ministry of Natural Resources and Energy shall conclude the applications for work permits by taking the assent of Ministry of Interior Affairs. However, in this process it is only possible to be granted with a work permit of six (6) months maximum. In any event that a longer period of work permit is requested, then the provisions set forth within Law on Work Permits of Foreigners numbered 4817 shall be applied.

Technical standards for petroleum products

Any petroleum products to be marketed within the territories of Turkey and all the extraction equipment shall comply with the technical standards according to Article 5 of Regulation on Technical Criteria to be applied in the Petroleum Market, published in the Official Gazette numbered 25579 and dated 09.10.2004. Furthermore, at the same time

any petroleum products marketed within Turkey shall comply respectively with the TS, EN or any other standards acknowledged by Turkish Standards Institute. In this respect any equipment non surveyed with one of the mentioned standards, is obliged to provide a quality conformity certificate.

Oil & Gas Market in financial aspect

There are some taxes levied on the production and sale of oil and gas products. Private Consumption Tax Related to Oil and Gas shall also be borne. However, total tax amount to be borne shall not exceed 55% of the total net income. Currently, there are not any applicable special taxes set forth within the regulations concerning the oil/gas production and environment. However, there are drafts of regulations to be enacted shortly in connection with EU Directives and Kyoto Protocol.

Sell & purchase prices in oil market shall be formed and determined based on the nearest accessible global free market conditions in accordance with the Petroleum Market Law numbered 5015. As per the domestic crude oil, prices shall be formed based on the "Market Price" at the nearest port of delivery or refinery. However, according to the Natural Gas Market Law numbered 4646 prices vary based on connection price, transmission storage price, wholesale price, retail price.

In addition to new technologies for exploration and production, the sector is impacted by broader technological advancements. Competition Law numbered 4054 and Turkish Competition Authority regulates such matters. However, except of the general provisions set forth by the Competition Law numbered 4054 and Turkish Competition Authority for the whole markets, there isn't any specific provision for oil market. On the other hand, as per the gas market, certain special exemptions are set forth within Article 7a of Natural Gas Market Law

numbered 4646. In this respect, foreign companies selling gas to Turkish market are restricted to sell more than the 20% of the total yearly consumption provision indicated by the Energy Market Regulatory Authority. Furthermore, legal entities operating in the gas market are also restricted from incorporating other companies.

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