

# **FOSSIL FUEL SUBSIDIES AS A LOSE-LOSE: FISCAL AND ENVIRONMENTAL BURDENS IN TURKEY**

Sevil Acar, Assistant Professor of Economics, Istanbul Kemerburgaz University, +90 212 604 0100/4064  
[sevil.acar@kemerburgaz.edu.tr](mailto:sevil.acar@kemerburgaz.edu.tr)

Sarah Challe, Master Candidate Sciences Po Paris, +33 6 60 14 72 55  
[sarah.challe@sciencespo.fr](mailto:sarah.challe@sciencespo.fr)

Stamatios Christopoulos, Programme Analyst Energy & Environment UNDP, +421 2 59337 309  
[stamatios.christopoulos@undp.org](mailto:stamatios.christopoulos@undp.org)

Giovanna Christo, UNDP consultant, +554 19 96 23 43  
[giovanna.christo@undp.org](mailto:giovanna.christo@undp.org)

## ***EXTENDED ABSTRACT***

### **Overview**

This paper aims at quantifying the magnitude and the relative importance of Fossil Fuel Subsidies (FFS) in the Turkish economy. FFS are provided by a government in order to lower the cost of fossil fuel energy production, increase the price received by energy producers or decrease the price paid by energy consumers.

The issue has surfaced over the past 15 years due to a number of reasons. Preliminary studies indicate that FFS account for a large portion of the GDP in many countries and are a relatively inefficient instrument. FFS are intended to promote industrialization and improve energy access for the poorest groups. However, they have failed to meet their intended objectives and they impose heavy burdens on the national balances of payment of countries. By distorting market signals, FFS lead to inefficient allocation of resources and hinder investment in efficient and clean energy sources. They accelerate natural resource depletion and global climate change through increased CO2 emissions. In addition, FFS tend to benefit the richest segments of population disproportionately as the latter have relatively higher energy consumption. For all these reasons, FFS constitute a critical impediment to sustainable development and their phasing out is both necessary and urgent. Many countries have taken commitments in that direction through the G20, the Rio+20 process or the EU.

Turkey imports 80% of its total energy supply, mainly hard coal, lignite and natural gas. As indicated by previous preliminary studies (OECD, 2011), the issue of FFS is quite important as the government has injected approximately 1 billion USD into direct and indirect FFS only in 2010. However, the little research up to date, has not reached in-depth analyses of the extent and type of support provided to fossil fuels in Turkey. The present paper is casting light on the issue by introducing additional and more recent data.

### **Method**

This paper utilizes existing data sources such as national public account reports and regulations as well as expert opinions through face to face interviews in order to probe into the current situation of FFS in Turkey. The approach pursued is bottom-up, through which specific transfers to the fossil fuel sector are identified at the national level. In addition, the regulatory framework entailing the policy and fiscal environment in which subsidies function, as well as the existing data and incentives for FFS are outlined in the study.

### **Results**

Turkey has a mix of Consumer and Producer Subsidies for coal, oil and natural gas. In the 2001-2011 period, around 6.9 billion TL were injected to TTK and TKİ from the Treasury in the form of capital and duty loss payment. Moreover, the new investment incentive scheme has developed and dispatched approximately 1300 incentive documents to various energy production and transmission activities in the fossil fuel sector. At the same time, there are tax exemptions in Domestic Commercial Aviation, Vehicles used for National Security, Ships in Cabotage Lines and Rebate for Diesel Used in Agriculture, as well as tax exemption for Oil and Gas Exploration, Transportation and Distribution. Finally, according to IEA statistics, during the period 1986-2009, 18 billion TL was channelled to R&D for fossil fuels by the public and private sector. Eight billion of this was spent on coal.

### **Conclusions**

The results of the study show that significant government support is provided to the fossil fuel sector in Turkey. Support measures take various forms and they are directed both towards production and consumption. In spite of the subsidies, Turkey has one of the most expensive fuels in the world – especially gasoline and diesel – due to a special consumption tax. Furthermore, FFS are in stark contrast with Turkey's national commitments towards

sustainable development, and do hamper the achievement of the country's target to accomplish 30% of its power from renewable energy sources by 2023 (Turkey's Sustainable Development Report: Claiming the Future, 2012, pg. 40). From an energy governance perspective this generates question marks such as why do we have conflicting fiscal policies on one sector and what parts of the population are actually benefited from these policies? Would perhaps similar mechanisms bring better results environmentally and socially if they were directed to other energy sectors such as renewables? Further research is needed to assess the impact that these support measures have on energy access and security, domestic employment and growth, as well as on the levels of CO<sub>2</sub> emissions and deployment of renewable energy. Without doubt, gradually phasing-out FFS would be another capital step in enabling Turkey to tap into its enormous potential for alternative and clean energy securing sustainable development and its future.

### **References**

Koplow, D. 1998. Quantifying Impediments to Fossil Fuel Trade: An Overview of Major Producing and Consuming Nations. Unpublished analysis prepared for the OECD Trade Directorate. Paris: OECD.

Organization for Economic Co-operation and Development (OECD), 2011. Turkey: Inventory of Estimated Budgetary Support and Tax Expenditures for Fossil Fuels.

Turkey's Sustainable Development Report: Claiming the Future, Ministry of Development, June 2012, Ankara.