THE IMPACT OF TURKEY’S POSSIBLE EU ACCESSION ON THE PRIVATIZATION PROCESSES OF THE ENERGY SECTOR IN TURKEY

Abstract

The primary objective of this paper is to examine the influence of Turkey’s future accession into the European Union (EU) on the recently accelerated privatization processes. In order to achieve this purpose, we focus on the privatization processes in the energy sector. Since the early 1980s restructuring and privatization have become important tools of economic policy for Turkey. In recent years, however, both the restructuring and privatization programs experienced acceleration, especially with the aggressive privatization policies of the incumbent government led by AK party.

Between 1986 and 2006 total privatization asset divestiture reached to about $25 billion. However, only $9.5 billion of that amount was actualized between 1986 and 2004. For the year 2005 alone total amount received from privatization was $8.2 billion and $7.3 billion in February of 2006.

This paper finds that there are two interrelated reasons behind this acceleration. First one lays in the foundation of economic reforms - meaning achieving efficiency and in turn increasing economic growth and prosperity. The second reason takes its roots from the influence of Turkey’s probable accession into the European Union (EU).

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I. Introduction

Since the early 1980s restructuring and privatization have become important tools of economic policy for Turkey. Especially, in recent years, both the restructuring and privatization programs experienced acceleration with the aggressive privatization policies of the incumbent government. While between the years 1986 and 2006 total privatization asset divestiture amounts to $25 billion, only $9.5 billion of that amount was actualized between 1986 and 2004. For the year 2005 alone total amount received from privatization was $8.2 billion and already $8.0 billion on July of 2006. (See Table 1, Appendix).

We suggest that there are two interrelated factors behind this acceleration. First one lays in the foundation of economic reforms - meaning achieving efficiency and in turn increasing economic growth for prosperity. The second factor takes its roots from the influence of Turkey’s probable accession into the European Union (EU). Since one of the EU criteria for future EU members is to have economic integrity, a requirement for candidate states to achieve economic stability and prosperity, it is crucial for such states as Turkey to install economic reforms leading to economic restructuring. Owing to this nature and to bring in economic stability to the country, the successive Turkish governments have attempted to integrate economic restructuring. Hence, privatization as a policy became inevitable for the process of restructuring in Turkey.

Therefore, the primary objective of this paper is to examine the influence of Turkey’s future accession into the EU on the recently accelerated privatization processes. In order to achieve this purpose, we focus on the privatization attempts in the energy sector.

The structure of the paper is as follows: In the next section, we examine privatization as a general concept and evaluate the Turkish privatization process. In section three, we discuss privatization processes in the energy sector and Turkish politics. In section four, we
give an overview of second wave of privatization acceleration and discuss EU as a driven force behind this acceleration. In section five, we conclude with final remarks.

II. The Concept of Privatization and Evolution of Turkish Privatization Process

The Concept of Privatization

In the recent years, most emerging markets, such as Turkey, have been implementing privatization as a way of restructuring the economy and to bring efficiency to business operations that SOEs lack. One of the crucial factors for SOE inefficiencies in Turkey has been the engrained problem of the agency theory that includes unaccountability, complications in measuring risk and incentives where salaries are based on input rather than output which act as a burden on the state economy (Donahue, ). However, despite the difficulties that the agency problem poses on Turkish SOE performance, the privatization process has been gradual in the country.

Extant literature on privatization suggests that delays in privatization are reasons for unsuccessful outcomes. It is argued that unsuccessful outcomes derive from political constraints on reforms and restructuring. However, “Success stories of privatization are rare in low-income countries, and the long-term promise of privatization in sectors posing regulatory complications remains to be established. Countries in crisis may reform SOEs quickly and deeply despite these uncertainties, but others may opt for gradual reform, which need not be altogether bad” – suggesting that efficiency can be achieved in either case if the privatization objective is clearly defined. (Ramamurti, 1998).

In the past twenty years various countries in which SOEs were major economic and social actors- including most developing countries-have adopted reforms. The nine key SOEs (telecommunications, postal services, airlines, railways, transport, power, cement, iron and steel, and textiles) have been persistently poor. (Kikeri, Nellis, Shirley, 1994).
However, in addition to this concern, there has always been a different challenge, mainly the privatization of monopolies. In the past, the energy sector formed both the philosophical and the economic nucleus for the regimes that came to power, as this sector, along with other utilities was a vital artery for governments to deliver their own objectives and to control prices as well as the flow of distribution. In this way governments had the power, thereby, hindering the process of privatization in the sector. The weakness and/or absences of private sector, eventually affected the politics of economic policy in a number of ways. For example, initial reforms failed to work in the absence of private sectors, and the economy fell short of quickly responding to crises in the absence of structural reforms. But, the link between reforms and privatization is crucial as efficiency and economic benefits cannot be reaped without the other. This was apparent in most cases in Latin America during their initial privatization processes. For example, when Mexico initiated reforms in mid-1980s, it was able to enjoy the benefits of a refined and internationalized private sector (Gati, 1990).

Naturally, Turkey faces different economic challenges than that of Mexico. In Turkey, the past economic experiences and crises lingered for years to come eventually leading the country to witness financial crises in 1994, 2000 and 2001. The enduring economic complexities were due to many factors, but two central features stand out. First, reforms were accomplished through military coups since the 1960s. Second, the structural reforms were inadequate. Therefore, privatization of natural monopolies, such as the energy sector in Turkey has been stalled for some time since late privatizations in this sector takes its roots from the concept of state versus the citizens. To be able to better comprehend the privatization process in Turkey it is necessary to examine the historical evolution of privatization in the country.
Gradual Privatization: A Historical Overview

Historically, Turkey has had a long experience relying heavily on SOEs that were established during the 1930s by the government to jump-start the economy that collapsed with the end of the Ottoman era in 1923. The Turkish government began its production and distribution operations due to the deficiencies in the private sector. With the establishment of SOEs, the preliminary stage of industrialization was initiated. Through the years SOEs grew enormously, leaving the control of the economy to bureaucrats by becoming political tools for the parties that came to power. Subsequently, through political considerations SOEs presented exploitation of jobs and bend the economy by price hikes. Gradually, SOEs not being efficient have become a heavy load that was retaining limited resources of the country.

Consequently, in the 1980s the vision of SOE role began to form a negative outlook for Turkey, it included poor financial performance, overstaffing, dependence on subsidies and unilateral budget transfers, highly centralized and politicized poor performance, protected markets, and corruption. The implications of the SOE role were budget deficits, inflation, and lack of competitive markets, high domestic input costs and lack of export competitiveness. Owing to these inefficient conditions privatization came into the agenda of Turkey.

However, at first inefficiency was not the driving force for the fundamental cause of privatization. As noted in Aysan’s 1982 restructuring proposals reports, macroeconomic imbalances were more significant drivers of privatization proposals. Although the actual implementation of privatization began in 1984, the process was gradual and the long-term affects (such as high inflation) of SOEs were still lingering in 1999. Privatization of SOEs in such sectors as cement industry, tourism industry, airline industry, animal/feed industry and etc. began right away with the start of the program. However, privatization of the energy

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sector came in the agenda in the later years. Therefore, Turkey’s experience with privatization in the energy sector has been gradual from the start.

However, the gradual privatization process in Turkey regarding the energy sector was not a conscious decision as the political elite that set the pattern of economic activity has further controlled state monopolies that benefited favored groups even after the initiation of privatization process. One particular justification for that was monopolistic SOEs were perceived to be strategic entities and saviors of the national interest; therefore they were intended to be kept under government control. Historically, this has been the case for Turkey as the late start in privatization of energy sector was due to such considerations as strategically important monopolies belong to the nation as a whole.

The articulation for this claim can be explained by Ramamurti’s (1998) theory concerning some of the emerging markets such as Turkey, where not all SOEs have been privatized as opposed to others. Ramamurti questions the nature of the privatization process in order to answer why some SOEs have been privatized and the others have not? Firm-Level Determinants clearly demonstrate that ownership rights and agency theory have a hold over the privatization process. The SOEs mean to belong to the entire society not just to one individual, thereby there are no threats regarding takeovers and bankruptcy and there are no clear goals and incentives to motivate managers.

Ramamurti’s Country-Level Determinants is mainly concerned with political goals rather than economic ones, as privatization cannot take place if politicians do not desire to privatize. Therefore, there is a need for change in the ideology in supporting free market, macroeconomic crisis, and the level of development of a country’s market-supporting institutions.

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6 Ibid.
Although some economists see government as a needless and costly imposition on an efficient system, many believe that government is vital performer in an organism that efficiency is only one of the goals.\(^7\) This was especially true for Turkey in the case of natural monopolies like the energy sector as they were considered weak market supporting institutions and their privatization did not appear in the agenda until recently.

### III. Privatization Processes in the Energy Sector and Turkish Politics

Turkish political environment is a multifaceted one. Decision-making occurs within a scene comprising the purpose in a complex political platform in which the many dimensions of the Turkish government and the range of institutional powers exist. Certain forces initially shape decision-making processes and the distribution of influence on public ministries and political parties. In Turkey each SOE belongs to a particular ministry. SOEs work as a partner with Economic State Enterprises (IDT).\(^8\) Individual ministries that run the SOEs have for a long time been opponents of privatization, especially the privatization of the energy sector due to control and employment issues and their potential gains. The bureaucrats have been motivated to pursue a view of the public interest have also strived to achieve personal goals such as status, income and promotion. These objectives were obtained with larger budgets and more employees. Along with these conditions, the close association of unlike organisms such as politicians/political parties, bureaucrats, elite entrepreneurs and special interest groups set the tone in decision-making. The self-interests of these groups are interwoven and often set forth as the public interest that resists any change in the power structure.


\(^8\) Yılmaz Dikbas, Ozelleştirme Somurğeleştirme (İstanbul: Kaynak Yayınları, 1997).
The activities in policy-making and the actors vary. Although there is an institution - Privatization Administration (PA) (T.C. Başbakanlık Özelleştirme İdaresi Başkanlığı), which is in charge of privatization issues, it is not the sole entity that is responsible for privatization. The Council of Ministers (Bakanlar Kurulu) has the power to privatize SOEs along with other government branches that mandate the privatization process. The actors are not fully autonomous, but subject to environmental factors that become major constraints upon the determinant of decision. Their mandates usually do not agree with each other, thereby reflecting many of the most often heard critical refrains. As a consequence, the relative importance of different sources of influence pressure different commissions including political parties. The reciprocal influence between the different organs of the Turkish government, in the past, did not seem to allow for changes in the views of privatization of the energy sector. In addition, the World Energy Crisis had negatively impacted the Turkish Economy where its effects lingered on for quite a while. However, beginning in the 1980s, more positive world-wide economic changes were already occurring. During the 1980s SOEs witnessed several regulatory innovations, which stretched the role of private firms in public utilities sector. Monopolies such as gas or power distribution could from then on, be regulated through yardstick competition, or price cap regulation, thereby making state ownership obsolete.⁹

Considering the environmental changes that took place, the Turkish government decided to start privatization with various monopolies. One of the first companies that were to be privatized was PETKIM (Petrochemical Holding Company). PETKIM founded in 1965 is an oil and gas producer and it is one of the top four companies in Turkey. The government also proposed to sell its equity shares in joint stock companies, indeed this was the easiest to do, therefore making a very logical first step. But, the first implementation of the privatization

process showed slow progress and limited success and did not include key monopolies due to political and legal constraints, nationalistic sentiments and the lack of implementation capacity.

Privatization however accelerated as the government sold its minority shares in various smaller SOEs. Only a small number of SOEs were privatized at first. In line with Law No. 3291 of 1986, privatization process began via block sales and/or through sale offerings direct to the public. Shares of privatized companies were first offered to their employees, then to domestic investors, Turkish workers abroad and lastly to foreign investors.\textsuperscript{10} With these transfers, the government showed its commitment to the privatization plan and its determination to expand it.

The sale of PETKIM, being a profitable monopolistic petrochemical company also received adverse reactions from the trade union and many other interest groups as the company was regarded as public enterprise that was important to Turkish economy. PETKIM being a wholly state-owned company employed 8,000 workers that had a strong trade union connection, which was influential within the opposition parties and the general public. This sale created various debates by academics, bureaucrats, and employees as well. Nevertheless, in this case, the government going by the law, first offered the shares to the company employees and the public, when these groups bought only 8 percent of the shares, the government looked into selling the rest of the company to foreign institutions. The opposition from the union put off the sales of remaining shares of the company for a considerable period. Concern over the loss of jobs has led to a strong opposition from trade unions and other groups such as TUSIAD (principal organizations of corporate business) and Petrol-İş (Petroleum Workers Union).

TUSIAD became another impediment for foreign investor participation on the basis of biases that avoided foreign participation and further benefited the domestic entrepreneurs.\footnote{Privatization Administration was given the authority to regulate SOEs in their privatization processes.}

In addition, Petrol-İs members of PETKIM employees did not favor privatization of PETKIM as these employees seemed to believe that the sale of the company’s shares through the public offering method would be disadvantageous for the whole community since it was no different from the block sale method. Consequently, employee protests led by Aliaga Branch of Petrol-İs were experienced. In the end, PETKIM’s sale as a final point was entrusted with Morgan Stanley Dean Witter as the advisory firm. 8.1 percent of its shares were sold for $150.6 million in 1990 through a public offering. PETKIM was in the highest echelon concerning profit stipulations with profits of $507 million in 1996.\footnote{Pekin, Pekin, 2000, The Turkish Business Environment. Istanbul Turkey.}

Both the case of TUSIAD and the case of trade unions further delayed the privatization of monopolies and stalled reforms. Despite the privatization and the liberalization attempts of the Turkish economy by successive governments, a substantial progress in privatization was not achieved due to the lack of necessary safety mechanisms such as independent judiciary and accountability measures. Nevertheless, from 1984 to 1992 there were 112 SOEs offered for sale, but only 32 were effectively privatized and majority of these were small corporations.\footnote{Dereli, Toker, Isik Urla Zeytinoglu. “Public sector industrial on the eve of mass privatization Turkey”. International Labour Review, Sept-Dec 1993, v132 n132, n5-6, p689(14).} By the end of 1980s the public demand for denationalization of stock was on the rise.

In 1991 privatizations of TUPRAS (petrochemical refineries / one of the top four companies) and Petrol Ofisi A.S. (POAS) (leading petroleum distribution company –fuel retailer) were on the agenda.\footnote{Bodgener, Jim: Rich Pickings from a busy program. Middle East Economic Digest, July 12, 1991, v35, n27, p13(1).} In the following year, privatization process of IPRAGAZ was also put on the agenda.
When the privatization processes of TUPRAS are considered, it becomes noticeable that the first attempt was initiated via public offering; consequently, 3 percent of its shares were traded in 1991. Eight years later, in 1999, during a second wave of TUPRAS privatization process through public offering, 1 percent of its stakes was sold. These two victorious privatization attempts did lead to a third one in 2000. Here again, public offering method was selected where 31 percent of TUPRAS shares were sold for $1140 million.

The other agenda item was POAS. The privatization record of this firm goes back to the year 1998 where 51 percent of its shares were offered via the block sale technique. The Akmaya-Orteks consortium was the highest bidder with an offer of $1160 million. Thus, the ownership of POAS was to be transferred via this privatization. But, the Supreme Board of Privatization cancelled that deal. The same year an additional failed privatization effort was experienced. A joint consortium comprised of Is Bank, Park Holding, Bayindir Holding and PUIS came with the identical offer of the previous year – meaning $1160 million. The offer won the bid. However, the execution of the planned sale was suspended by 6th Administration Court of Ankara.

The third agenda piece was Ipragaz. Ipragaz was established in 1961 and has a reputation as one of the largest private firms of Turkey and as the first LPG (Liquid Petrol Gasoline) company in the country. Ipragaz’ privatization was attained in 1992 via its block sale to Primagaz A.G. of France for $64 million. At the time of initial privatization, 49 percent of its shares were sold. However, after a total of three privatization attempts of the company, total stakes sold only amounts to 51 percent. During this time, a similar company to Ipragaz, Primagaz A.G. was bought by the biggest LPG distribution company of the world, SHV Gas of Netherlands. Later, Ipragaz too became a part of SHV Gas in 1999. Following its privatization, Ipragaz participated in several strategic alliances with the government and industry on education, health and corporate social responsibility.
During this time the Turkish government also planned to sell its remaining shares of PETKIM by block sales.\textsuperscript{15} Although, it concentrated on the most profitable SOEs, this was a great leap towards privatization, since energy was one of the difficult sectors to be privatized in Turkey because the government held strong stakes. Unfortunately, none of these privatization cases were fully actualized until 1999, due to political constraints. Hence, during the period of 1993-1999 privatization efforts were somewhat stalled.

Constructive events followed, seeing that in December 1999, Turkey entered into a $4.0 billion standby credit agreement with the IMF. The agreement concluded that Turkish government needed to stay committed to reforms and the implementations of these reforms already came into effect in the early 2000s. Structural reforms include fiscal reforms through tax, social security and agricultural subsidy system reforms, the promotion of privatization of SOEs, and the banking system reform.\textsuperscript{16} This is where the reforms also include the energy sector for the first time. As mentioned previously, energy has been one of the most important Turkish development priorities as in the past it lacked financial resources and faced diverse political objectives. Bureaucracy also inhibited the growth of Turkey’s energy market for a considerable time.\textsuperscript{17} Finally, in 1997 energy privatization program was launched and in 1998 legal clearance was given to privatize electricity generation and distribution under special strategies. In addition, energy privatization gained new momentum with the establishment of the new government.\textsuperscript{18}

\textsuperscript{15} Ibid.
\textsuperscript{16} The Turkish Economy. Euromoney; London; Aug 1999.
\textsuperscript{17} Financial Times Surveys Edition; Financial Times, November 20, 2000.
\textsuperscript{18} Pekin, Pekin, 2000, The Turkish Business Environment. Istanbul Turkey.
With these movements, the year 2000 experienced a considerable increase in privatization activities of various sectors. At this time sharply accelerated privatization efforts began to work hand by hand with other structural reforms. This illustrates that the agreement with IMF was the first driving force behind the first wave of privatization acceleration that took place in 2000.

In the mean time, POAS experienced its first successful privatization process where 51 percent of its shares were sold by block sale to Is Dogan Petrol Yatırımları A.S. for $1260 million in 2000. This was a crucial turning point for its future privatization processes during the coming years. Hence, 26 percent of the company was privatized in 2002 through a block sale to Is Dogan Petrol Yatırımları A.S. again. Later, Dogan A.S. also bought an 18 percent of the company’s shares in 2002 through a block sale. In the later privatization attempts related to POAS public offering method was chosen - with this 5 percent of the company’s shares were sold to the public in 2002.

As a result of privatization, Turkey has acquired $7.3 billion in fifteen years and much of this has been generated from the privatization of the energy sector. POAS’ privatization for $1.26 billion of 51 percent of its shares has been effected as of April 30, 2000. The privatization target for the privatization administration of Turkey was $7.1 billion in 2001 with the expected full privatization of Turk Telecom, Turkish Airlines, PETKIM and TUPRAS. However, during the period of 2001-2004 a slow-down in the privatization activities became observable. Later in 2004 gradual increase became apparent as in 2005 privatization process experienced its highest peak with a record high $8,216 million. This acceleration is already carried onto the year 2006 with $7,344 million just in the first two months.

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19 Hurriyet (Republic of Turkey Ministry of Foreign Affairs), 2000.
Thus, privatization activities put forward in the year 2005 shows a second wave of acceleration. This time, the main reason behind this acceleration is desire for possible future accession of Turkey into the EU, rather than an agreement with the IMF.

**IV. EU Accession as a Force behind the Second Wave of Privatization Acceleration and Reforms**

**EU as a driving force for privatization**

In this paper, we suggest that the possible EU accession plays a significant role in the recent privatization process of Turkey. This is mainly due to one of the three EU accession requirements, mainly economic integrity as according to the EU standards, economic integrity is one of the pre-conditions for all candidate countries. This is especially true in the case of Turkey’s possible accession since economic integrity is related to restructuring. With the EU enlargement process, Turkey now faces an additional pressure to privatize and to restructure as it needs to fulfill the criteria also referred as the EU directives set forth by the EU as being: (1) Political Stability; (2) Economic Integrity; and (3) Ability to adopt the Community Acquis. By setting the objectives through these criteria, EU becomes the empowering agent for reforms and a driving force that would generate spillover benefits.

When economic integrations, in general, are considered, they can be seen as generators of spillover effects that would benefit the member states. This can be explained by the support of regional policies. Since all member states have a vested interest in taking care of regional problems, they are therefore involved in making policies that would stimulate economic growth (El-Agraa, 1998). This may be the case why in the late 1950s and early 1960s economic integration among developing nations was perceived as the only viable way for them to make some real economic progress. Although this type of reasoning may have
some implications, the spillover benefits of integration to nations like Turkey seem to be considerable in stimulating economic growth. Although Turkey is not yet a full member of the EU, it has already experienced efficiency spillovers on the way to accession as it has been demonstrating changes in economic efficiency. Therefore, this progress supports the theory of economic integration, which states that integration enforces changes in economic efficiency. The advantages of economic efficiency are already apparent in the case of Turkey; these can be identified as a more liberalized financial market, enhanced efficiency and increased specialization in the business environment in accordance with the law of comparative advantage and an improved international bargaining position.

This economic efficiency, however, was accomplished mainly through the program of privatization, which appeared in the policy agenda after the Prime Minister Ozal’s political party Motherland (ANAP) emerged victorious from first post-military regime elections in 1983. Ozal’s ambitious transition program to market oriented economy started with trade account liberalization in 1983 and was shortly followed by capital account liberalization. The State Planning Organization (SPO) was charged with the task of preparing a privatization master plan. The SPO hired Morgan Guaranty Trust Co. (MGT) as lead advisor. Privatization Master Plan produced by MGT was introduced amid sweeping changes in the Turkish economy. The main objectives of the privatization master plan were articulated as improvement of resource allocation and creating efficiency gains in the economy.

The recognition of Turkey's EU candidacy for full-membership at the Helsinki European Council in December 1999, provided a strong impetus for domestic political and economic reforms. Although the EU integration process and the membership possibility has always been a catalyst for democratization and economic restructuring in Turkey, Helsinki Summit solidified this perspective and provided further momentum to reform oriented groups
in Turkey. Third, we argue that 1999 privatization program was the first program that envisioned privatization as part of a wider structural transformation effort rather than a mere revenue generating sell off or fiscal patch. Hence, the process gradually accelerated by the year 2000. Although the momentum gained in early 2000 was lost when the fragile stabilization program collapsed in early 2001 due to financial crisis.

Privatization was further reinforced in the IMF supported May 15th 2001 program. The program introduced by a new economic leadership emphasized the structural problems of the Turkish economy and widened the scope of the economic restructuring efforts in comparison to 1999 stand by agreement. The May 15th 2001 program contemplated a three phased strategy to address the problems of the Turkish economy and overcome the crisis. It introduced revisions to the regulatory framework for the banking sector, aimed to restore stability in markets, and emphasized significance of prudent macroeconomic management to facilitate sustainable growth. The structural component of the program focused on the financial sector restructuring, a transparent and strengthened public finance, increased competition and efficiency in the economy as well as building a consensus among social groups to sustain the program. May 15th program took also Turkey’s commitments towards adaptation of “Acquis” into consideration and was consistent with the Turkey’s National Program.

The new government displayed its adherence to 2001 privatization program and accelerated the legislative agenda in support of economic and institutional reforms. The government announced the 2003 privatization target as $4bn, and declared that the government had its full support for the 2003 program. The new government also considered that it fulfilled Copenhagen Political Criteria, guaranteeing democracy, the rule of law, human rights and respect for minorities by the year 2004. Negotiations between the EU and Turkey
began in December 2004. At this time Turkey finally backed the *EU-supported UN plan to reunite Cyprus*. Additional political and social reforms were also established by the Erdogan government. These reforms included the abolition of Death Penalty; ratification of the European Convention on Human Rights; and the partial lifting of ban on teaching in Kurdish. Soon economic reforms began to follow political and social reforms.

On the financial side, reforms included the reconsideration of banking regulations and augmentation of the monetary policy framework. Addition to these new reforms, the New Turkish Lira YTL was introduced. Among its other specific goals, YTL was meant to target high inflation. Consequently, Consumer Price Inflation (CPI) sharply dropped to 7.5 percent in October 2005 from its previous figure of 73.2 percent in the beginning of 2002. Reforms also included the rehabilitation of the banking sector at a cost of $47 billion (30 percent of 2002 GNP). The Banking Authority (BRSA) began to play a more constructive supervisory role in auditing bank balance sheets and transferred failed banks to Savings Deposit Insurance Fund (SDIF) in order for sale, merger and liquidation.

At this time, Turkey also experienced one of the most important reforms in the Turkish banking sector by preparing for the application of Basel II agreement. Being implemented in the EU through legislation, Basel II has been approved by the European Council and the European Parliament. It is considered that the Basel II agreement will make Turkish financial system safer and will help adopting more risk-sensitive minimum capital requirements for banking organizations. As a result, banks will be more careful about their risks and will require further information from their clients, which will promote transparency and at the same time boost foreign direct investment and mergers and acquisitions, as well as privatization.
Although in 2001 Turkey suffered from a serious financial crisis, recovery from this crisis was rapid as Turkish economy showed a substantial growth of 7.8 percent in 2002. This figure although decreased to 5.9 percent in 2003 it also illustrated economic growth for Turkey. The increase in growth - 9.9 percent in 2004 showed the highest growth rate among OECD countries in 2004. Although still having its ups and downs, Turkish economy shows a steady growth as in 2005, the growth figure reached to 7.6 percent. An increase in private sector investment and domestic demand can be seen as the key factors behind the growth (British Embassy Economic Section, 2005). As a result, macroeconomic stability is gradually becoming a norm.

This stability and the possibility of entrance into EU together brought about interest from foreign investors in investing in the Turkish banking sector. Therefore, the number of mergers and acquisitions shows an increase. For example, BNP Paribas-Turk Ekonomi Bank, Koc-Uni Credito and Yapi Kredi Bank, Garanti Bank-General Electric Consumer Finance and the acquisition of Disbank by Fortis can be easily recalled during this time. Hence, mergers with foreign banks began to lose their reliance on government debt instruments. Along with the falling interest rates, less reliance on government provided an incentive for banks to adopt more conducive policies on property and consumer loans. In line with EU’s local banking practices, the Turkish government also passed a new Banking Act. This law provides for “fit and proper” criteria in bank ownership and also constrains risk exposure to group companies as well as improves the regulation of the sector. These economic and financial reforms began to increase FDI inflows into Turkey rapidly in recent years.

Prior to 2001, FDI inflows into Turkey averaged less than $1 billion per year. However, this has dramatically changed with the beginning of the year 2001 in which the figure for FDI inflow increased to $3.2 billion. On the other hand, more than half of this was accounted for by Telecom Italia and HSBC acquisitions. Additionally, the AKP government
put in effect a new FDI law in 2003 that removed the need for investment permission. As a result, registration procedures for investing firms became easier.

Furthermore, foreign interest in the Turkish market has increased with a considerable fast pace since December 17, 2004 when Turkey was assigned a date to start negotiations with the EU and inflows have increased since the start of accession negotiations on October 3rd.

**The second wave of privatization acceleration**

Besides all the economic reforms, the restructuring process also included privatization projects. In 2005, all the privatization projects accounted for approximately $20 billion, doubling the amount in the last 20 years. Privatization processes in the energy sector that has been protected for so long also began to accelerate. Hence, the second wave of privatization acceleration comes to the scene with some of the very well known oil companies in Turkey such as PETKIM, TUPRAS, Bursagaz and Esgaz.

Among these PETKIM experienced five privatization processes where two of attempts were unsuccessful. During the first attempt of privatization of PETKIM 8.1 percent of its shares were sold for $150.6 million through a public offering in 1990. The second attempt took place in 2003 where an 89 percent stake was sold for $605 million through a block sale to Uzan Group’s Standart Kimya A.S. However, this deal was later cancelled as Standart Kimya A.S was not able to provide the initial down payment for the bid during the time allotted (30 days). The third step to privatize PETKIM was observed in 2004, unfortunately no buyers were found this time for the block sale of company. The demand to purchase PETKIM was insufficient that year, mainly because the company was in need of serious investment and the price set was too high. In the following year 2005, PETKIM experienced a fourth attempt of privatization via public offerings once again. During this attempt several investors including public and foreign were interested in the firm’s shares. PETKIM’s stocks
were sold for 5.45 YTL ($4.04) per share that is equivalent to an amount of $287.7 million in total. That way, 34.5 percent of 88.86 percent of the company was privatized. In the same year, another privatization attempt was actualized and the firm’s stocks were sold through public offering to both local public and foreign investors. Here a 4.18 percent of PETKIM was privatized and stocks were traded for 5.80 YTL ($4.30) per share.

During the second wave of privatization acceleration in 2004, TUPRAS being the other crucial oil company also faced its first unsuccessful privatization attempt. At first block sale method was preferred for TUPRAS’s 66 percent of shares. The amount of $1302 million was offered by Efremov Kautschuk GMBH which came into being by a collaboration of Zorlu Holding of Turkey and Tatneft of Russia. The deal was cancelled once more by the High Administrative Court (Danistay) of Turkey which declared that the process was being carried out against the privatization law and public interest was ignored. However, hopes for TUPRAS privatization never died. That was well proved the following year in 2005 in which TUPRAS finally experienced its first successful privatization process via the block sale method. During this fifth privatization attempt of the firm, 51 percent of shares were sold to Koç-Shell Group (Enerji Yatırımları A.Ş.) for $4140 million. In the initial stages some problems were experienced - mainly because Petrol-Is (the petroleum workers union) had brought an appeal on the sale of the company’s shares and the Council of State had suspended the sale. But, this problem was solved quickly and TUPRAS shares resumed to be traded. Thus, this privatization process was a success step taken. Finally, in the same year a different eye-catching privatization process of TUPRAS was observed after 15 percent of the company shares were sold via the public offering method to the foreign investors.

Bursagaz, the third firm mentioned during the second wave of privatization acceleration is a well-known company engaged in natural gas distribution and marketing activities in Turkey’s one of the biggest cities, Bursa. The firm was a BOTAS (Boru Hatları
İle Petrol Tasima A.S.) gas distribution subsidiary before privatization. The Privatization Administration of Turkey had privatized Bursagaz for $120 million to Çalık Enerji ve Sanayi Ticaret A.S. in 2004, however the privatization history of Bursagaz goes back to year 2002 where the company was included in the privatization agenda for the first time. In fact, the purchase of Bursagaz by Çalık came as a surprise since several more recognized companies were interested in Bursagaz’s block sale. During the bids, ten offers were made which came from Aksa Doğalgaz Dağıtım A.Ş., Zorlu Petrogas A.Ş., Nurol Holding-Nurol consortium, Tur Enerji A.Ş., Aygaz A.Ş.- Stat Oil ASA-Bursa Gaz ve Ticaret A.Ş. consortium, Alarko-Akfen consortium and Çalık Enerji ve Sanayi Ticaret A.Ş. companies. The bids were finalized via a 100 percent privatization (block sale) of Bursagaz.

The fourth company included in the second wave of privatization acceleration was Esgaz, a famous gas distribution company operating in Turkey’s Eskişehir city in 2002. The firm’s privatization process was completed via its 100 percent block sale to Kolin İnşaat Turizm Sanayi ve Ticaret A.S. for $43 million in 2004. Petrol-Is had tried to prevent the privatization of Esgaz by appealing to Ankara Administrative Court, reasoning that this privatization would seriously harm the employees and damage the Turkish economy. It also stated that the purpose of privatization was to attain efficiency, and to avoid public costs as well as generating profits. But Esgaz already illustrated these characteristics and therefore there was no need for privatization. The union also brought about the issue of this particular privatization attempt being against public welfare, as it was run behind the closed doors without any transparency, therefore it would create monopoly since it ignored the public offering option. Nevertheless, Ankara Administrative Court didn’t stop the privatization of Esgaz, which is now remembered as one of the most successful privatization efforts in the gas distribution sector.
Hence, the second wave of privatization acceleration shows the existence of needed reforms and restructuring of the economic system. Here, the desire to enter into the EU stands out as the force behind both the reforms and restructuring processes.

V. Conclusion

Although Turkey has been an associate member of the EU since 1959 when it was the European Economic Community, it is yet to be a full member due to its long term inability of fulfilling EU criteria for accession. Throughout this paper, we illustrated that despite the fact that privatization of natural monopolies, such as Turkey’s energy sector has been stalled for some time due to many challenges; reform in this sector is rapidly being experienced on the way to EU accession.

EU, therefore, is encouraging such a candidate country as Turkey on the achievement of economic integrity criteria in order to be included in by serving as the influential force in privatizing of the energy sector. Since the process integrated privatization is one of the necessary factors for economic growth, Turkey is already fulfilling this criteria.
Appendix

Table 1: Privatization Implementations by years.
Table retrieved from the website of Turkish Privatization Administration (oib.gov.tr).

PRIVATIZATION IMPLEMENTATIONS BY YEARS

Table 2: Privatization Methods (1986-2006).
Data retrieved from the website of Turkish Privatization Administration (oib.gov.tr).
Table 3: Major privatizations in the oil industry of energy sector.

Data retrieved from several sources.

<table>
<thead>
<tr>
<th>Date</th>
<th>Company Name</th>
<th>Privatized or Not</th>
<th>Buyer</th>
<th>Type</th>
<th>$ Amount</th>
<th>Shares Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>Bursagaz</td>
<td>Yes</td>
<td>Çalık Enerji ve Sanayi Ticaret A.Ş.</td>
<td>Block Sale</td>
<td>$120 M</td>
<td>100%</td>
</tr>
<tr>
<td>2004</td>
<td>Esgaz</td>
<td>Yes</td>
<td>Ticaret A.Ş.</td>
<td>Block Sale</td>
<td>$43 M</td>
<td>100%</td>
</tr>
<tr>
<td>1992</td>
<td>İpragaz</td>
<td>Yes</td>
<td>Prımagaz A.G.</td>
<td>Block Sale</td>
<td>$64 M</td>
<td>49%</td>
</tr>
<tr>
<td>2003</td>
<td>Petkim</td>
<td>No</td>
<td>Standart Kimya A.Ş.</td>
<td>Block Sale</td>
<td>$605 M</td>
<td>89%</td>
</tr>
<tr>
<td>2004</td>
<td>Petkim</td>
<td>No</td>
<td>No buyers found</td>
<td>Block Sale</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>Petkim</td>
<td>Yes</td>
<td>Various investors including the public and foreign investors</td>
<td>Public Offering</td>
<td>$287.7 M ($4.04 per share)</td>
<td>34.5% of 88.86%</td>
</tr>
<tr>
<td>2005</td>
<td>Petkim</td>
<td>Yes</td>
<td>Various investors including the public and foreign investors</td>
<td>Public Offering</td>
<td>$4.30 per share</td>
<td>4.18% of 88.86%</td>
</tr>
<tr>
<td>1998</td>
<td>Petrol Ofisi A.Ş. (POAŞ)</td>
<td>No</td>
<td>Akmaya - Orteks</td>
<td>Block Sale</td>
<td>$1160 M</td>
<td>51%</td>
</tr>
<tr>
<td>1998</td>
<td>Petrol Ofisi A.Ş. (POAŞ)</td>
<td>No</td>
<td>İş Bank, Park Holding, Bayindir Holding, PUIS</td>
<td>Block Sale</td>
<td>$1160 M</td>
<td>51%</td>
</tr>
<tr>
<td>2000</td>
<td>Petrol Ofisi A.Ş. (POAŞ)</td>
<td>Yes</td>
<td>İş Doğan Petrol Yatırımları A.Ş.</td>
<td>Block Sale</td>
<td>$1260 M</td>
<td>51%</td>
</tr>
<tr>
<td>2002</td>
<td>Petrol Ofisi A.Ş. (POAŞ)</td>
<td>Yes</td>
<td>İş Doğan Petrol Yatırımları A.Ş.</td>
<td>Block Sale</td>
<td>$3140 M</td>
<td>51%</td>
</tr>
<tr>
<td>2002</td>
<td>Petrol Ofisi A.Ş. (POAŞ)</td>
<td>Yes</td>
<td>The public (investors)</td>
<td>Public Offering</td>
<td>$1140 M</td>
<td>31%</td>
</tr>
<tr>
<td>1991</td>
<td>Tupras</td>
<td>Yes</td>
<td>The public (investors)</td>
<td>Public Offering</td>
<td>$1140 M</td>
<td>31%</td>
</tr>
<tr>
<td>1999</td>
<td>Tupras</td>
<td>Yes</td>
<td>The public (investors)</td>
<td>Public Offering</td>
<td>$1140 M</td>
<td>31%</td>
</tr>
<tr>
<td>2000</td>
<td>Tupras</td>
<td>Yes</td>
<td>The public (investors)</td>
<td>Public Offering</td>
<td>$1140 M</td>
<td>31%</td>
</tr>
<tr>
<td>2004</td>
<td>Tupras</td>
<td>No</td>
<td>Efremov Kautschak GMBHN (Zorlu Holding (Group) - Tatneft)</td>
<td>Block Sale</td>
<td>$1302 M</td>
<td>66%</td>
</tr>
<tr>
<td>2005</td>
<td>Tupras</td>
<td>Yes</td>
<td>Koc - Shell Group (Enerji Yatırımları A.Ş.)</td>
<td>Block Sale</td>
<td>$4140 M</td>
<td>51%</td>
</tr>
<tr>
<td>2005</td>
<td>Tupras</td>
<td>Yes</td>
<td>Foreign investors</td>
<td>Public Offering</td>
<td>$4140 M</td>
<td>51%</td>
</tr>
</tbody>
</table>
References


Williamson, Oliver E. “Franchise Bidding for Natural Monopolies --In General and with Respect to CATV.” Bell Journal of Economics, 1976, 7(1).


