Chapter 19

Restructuring the Electricity Sector in Turkey: Who are the Beneficiaries?

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ABSTRACT

Public utilities have been at the very centre of economic and social development of countries. Until the last decades, they were almost exclusively undertaken by public authorities. From the 1980s, they have been subject to liberalisation in many countries. Liberalisation of electricity means that the segments which are vertically integrated are unbundled and opened to private sector through privatisations. However, since the transmission and distribution segments are networks that exhibit severe natural monopoly characteristics, they should be either owned and operated by public bodies or regulated by independent regulatory authorities to protect consumer interest. In Turkey, the liberalisation process for the public utilities has begun in 1990s, but posed many problems at administrative and juridical stages. Lately, the legislative framework which is designed to be compatible with global standards has been completed. But at economic stage, we can easily observe the power of big companies and holdings outweigh the power of public authorities and counteract the public interest.

INTRODUCTION

Upgrading the energy sector has been one of the main concerns of industrialisation since its very beginnings. Oil, gas, and electricity are the main products of the energy sector and are consumed by residential and commercial buildings, as well as industry and the agriculture sector, with electricity accounting for 40% of all energy used. The electricity demand and supply increase as the economy grows, and this raises ecological, political, and geostrategic issues. Ecological problems due to high carbon emissions have been increasing on the global scene since classical non-renewable energy sources began being used.

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Restructuring the Electricity Sector in Turkey

intensely due to growing populations living in cities. Current energy policies in many countries are being designed with renewable sources promoted to replace non-renewables.

Electricity is seen as an industry in which the competitive and network segments can be unbundled and subjected to liberalisation (corporatisation and privatisation). Historically they were public utilities which accounted for a significant part of fixed assets – they played an important role in the industrialisation process of western countries between the 18th century and the 1980s. From then onwards, they have been the targets of liberalisation in many countries. It first began in Britain and Latin American and other countries followed soon after.

In theory, the issue was handled as a technical and allocation-efficiency problem in the realm of neoliberal economics – in which the market is deemed as the ideal mechanism to improve efficiency by allocating scarce resources in a way to maximise social welfare, but political economy issues are ignored. The policy implications of these theories have been the electricity sector reforms aiming to restructure the sector through privatisation and regulation of the industry. In recent years there has been plenty of literature produced on the subject of electricity sector reforms, investigating the results of reforms in various countries and making comparisons across them (Newberry (2002); Jamasb, Newberry, Politt (2005); Jamasb (2006); Yi-Chong (2006); Politt (2007); Zhang, Parker, Kirkpatrick (2008); Karova (2011); Erdogdu (2014). Some studies handle the issue with a political and institutional perspective, and set models explaining performance of reforming attempts by economic, political and institutional factors (Chang & Berdiev (2011); Williams, Ghanadan (2006); Nagayama (2009); Henisz & Zellner (2010)).

Again in theory, marginal cost pricing, which dominates automatically in competitive markets, would provide increases in efficiency. But in practice, there are problems resulting from market concentration – especially in utility sector markets, where the “market” is politically constituted. The electricity market is a typical example. It exhibits market failures from the very beginning of the acquisition of energy sources (production) to the end-user (consumers). In both theory and practice, the market is supported by regulation and government intervention in order to correct these failures.

However in practice it has appeared that, even in the countries where the regulation system is running well, there are several flaws which are hard to explain using the tools of neoclassical theory. Instead, the conceptualisation of political economy, where the state is not modelled as ‘neutral’ or ‘benevolent dictator’ as in neoclassical theory but rather as an agent of capitalistic interests, provides a more extensive basis for explaining the results coming out from the liberalisation process. As Harvey states, “When capital intervenes in struggles over the built environment, it usually does so through the agency of state power.” (Harvey, 1985, p. 41). The ‘built environment’ in this statement implies infrastructural entities including electricity.

In this study, we aim to explore the structure and function of the electricity markets, the market failures they pose and the market reforms designed to correct them by national and international decision-makers from a political-economy point of view. Our research poses two questions: ‘How compatible with the directives of the European Union (EU) is the market reform of the electricity sector in Turkey?’ and ‘who are the beneficiaries of the reform?’

The legislative process shaping energy policies in Turkey has been rather complicated over recent years. Is liberalising the electricity market from the government really being done for the sake of efficiency, thus for the public interest, or is it being done for the benefit of special interests? We argue that liberalisation in the energy sector does not serve to enhance the public interest, instead it promotes special interests.