

10 June 2010

ENERGY SECTOR RESEARCH AND DEVELOPMENT SUPPORT REGULATION

This article provides information regarding the Energy Sector Research and Development Support Regulation¹ (the “Regulation”), which became effective on 8 June 2010.

I. PURPOSE AND SCOPE

The Regulation envisages measures to support scientific and technological research and development (“R&D”) activities of individuals and legal entities in line with the energy policies of the Turkey. It is aimed at increasing security of energy supply in Turkey, and to support the development of the Turkish energy industry.

The Regulation covers R&D activities in the following areas:

- (i) utilization and improvement of renewable energy potential;
- (ii) renewable energy technologies;
- (iii) clean energy technologies;
- (iv) energy electro-mechanic equipment manufacturing technologies;
- (v) energy efficiency technologies;
- (vi) emission reduction technologies;
- (vii) cycling technologies; and
- (viii) energy transmission and distribution technologies.

II. APPLICATION PROCESS

Eligibility Criteria

Individuals and legal entities (including universities, institutes, corporations, etc.) are eligible to make an R&D support application to the Secretariat, which shall be formed under the Energy Affairs General Directorate of the Ministry of Energy and Natural Resources (“MENR”), during the periods which are permitted by the Secretariat. The Regulation does

¹ Published in the Official Gazette No. 27605 dated 8 June 2010.

not stipulate any condition of eligibility regarding the nationality of the individual, legal entity applicants or project partners. Commercial corporations must be domiciled in Turkey in order to be eligible for support mechanisms. The Regulation also stipulates that the branches and representation offices of companies whose headquarters are located abroad are not eligible for the support provided by the Regulation.

Submission of the Applications

Applications shall be prepared and submitted in accordance with the Technical and Financial Guide (the “Guide”), which shall be prepared and updated by the Secretariat on an annual basis and published by the end of each year. Time periods for project applications shall be announced by the Secretariat in the Guide on an annual basis.

Evaluation of the Applications

Initial review of the applications shall be made by the Secretariat in accordance with the Guide.

Applications that successfully pass such initial review shall be transmitted to the Project Evaluation Committee (the “Committee”), which shall be composed of 5 members, each appointed by the Secretariat (2 representatives from MENR, 2 academicians from the universities, and 1 energy expert from the industrial entities operating in the energy sector). Evaluation criteria shall be provided in the Guide.

III. SUPPORT MECHANISM

If an application is found appropriate by the Secretariat and the Committee, a contract shall be signed between MENR and the project partners to provide, among other things, the scope and the schedule of the support.

Support shall be provided in the form of a cash payment by MENR. The budget of each financial support shall be stated in the respective Contract. Payments can be made both in the form of upfront fees and reimbursement of expenses.

Reimbursable expenses are as follows (each on the condition of being stated in the Contract): (i) personnel salaries, (ii) labor costs, (iii) travel expenses and allowances, (iv) machinery and equipment expenses, (v) prototype preparation expenses, (vi) costs regarding consumables, and (vii) laboratories, tests and analyses-related expenses.

Non-reimbursable expenses include: (i) capital utilization cost, (ii) foreign exchange differences, (iii) depreciation costs, (iv) advance payments, (v) distribution, marketing and advertisement expenses, (vi) trademark registration costs, (vii) secretarial and other administrative costs, (viii) promotion, motivation and other premium payments to personnel, (ix) payments and donations to social support foundations, (x) travel expenses other than transportation and accommodation, (xi) fuel expenses, (xii) office equipment, (xiii) heating and lighting costs, (xiv) rent fees for office, warehouse, etc., (xv) construction and installation expenses, (xvi) stationary expenses, and (xvii) costs and expenses made prior to the execution of the Contract.

The maximum duration of support is 36 months, which may be extended by MENR twice, each time for a maximum of 6 months. International energy R&D projects shall be supported for the whole term of such projects.

The approved R&D programs are subject to the supervision and control of MENR. Project partners are required to prepare progress reports at least once in every 4-month period to submit to the Secretariat. In addition, the Secretariat shall form a Supervision Committee for each Project. The committee shall prepare a Supervision Report at least once a year. The Secretariat will decide upon the continuation, suspension or cancellation of the aid to a project depending on the findings of the Supervision Committee.

IV. CONCLUSION

The Regulation is certainly a step forward to develop the Turkish energy sector. It is generally in line with the European Union legislation which permits state aid in energy sector R&D activities at both member state and Community levels (See *e.g.*, the European Union Seventh Research Framework Programme 2007-2013).

Although the Regulation itself does not include any monetary figure regarding the budget of its initiative, the 2010-2014 Strategy Plan of MENR², which was published in March 2010, states that the planned budget of the energy sector R&D support program is TL 50 million (approximately €26 million as of the date hereof) for the 5-year period between 2010 and 2014. However, much remains to be seen until the Guide is published by MENR at the end of 2010. Several details, such as eligibility criteria, the support percentage threshold, the periods when applications shall be permitted to be made, and most importantly, the details of the selection criteria are to be set forth in the Guide by the end of this year. ⊕

² Available at "http://www.enerji.gov.tr/yayinlar_raporlar/etkb_2010_2014_stratejik_plani.pdf".