POLITICS OF INSTITUTONAL CHANGE IN STATE-BUSINESS RELATION: A CASE STUDY IN TURKEY'S ELECTRICITY SECTOR

A Master's Thesis

by

MESUT KILIÇ

Department of International Relations
İhsan Doğramacı Bilkent University
Ankara
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MESUT KILIÇ

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I certify that I have read this thesis and have found that it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Arts in International Relations.

Asst. Prof. Dr. Pınar İpek
Supervisor

I certify that I have read this thesis and have found that it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Arts in International Relations.

Assoc. Prof. Dr. Mehmet Fatih Tayfur
Examining Committee Member

I certify that I have read this thesis and have found that it is fully adequate, in scope and in quality, as a thesis for the degree of Master of Arts in International Relations.

Asst. Prof. Dr. Seçkin Köstem
Examining Committee Member

Approval of the Graduate School of Economics and Social Sciences

---

Prof. Dr. Halime Demirkan
Director

ABSTRACT

POLITICS OF INSTITUTIONAL CHANGE IN STATE-BUSINESS RELATION: A CASE STUDY IN TURKISH ELECTRICITY SECTOR

Kılıç, Mesut

M.A., Department of International Relations

Supervisor: Asst. Prof. Dr. Pınar İpek

August 2018

Since the early 2000s, the electricity sector in Turkey has witnessed an institutional change, with the enactment of Electricity Market Law (EML), 2001, and the declaration of the 2004 Energy Strategy Paper (ESP) published by the Higher Planning Council. Within this new institutional framework, the state has been giving up its monopoly in electricity production and distribution sectors and transferring its considerable amount of operations to private companies. Although one of the main reasons of this institutional change in the sector indicated in ESP is "security of supply," Turkey's interdependence between natural gas and electricity market has substantially increased. Therefore, this development in Turkish electricity sector requires further investigation of state-business relation in the context of politics of institutional change in electricity market. In order to understand and explain the politics of institutional change in Turkish electricity sector, the thesis employs three main theories namely rational choice, historical institutionalism, and constructivism. Having examined the institutional change process, the thesis concludes that despite the extent of exogenous factors, there is an endogenous process of path dependent institutional change within the historical trajectory of state-business relation in Turkey. The perceived understanding of stakeholders in the electricity market about their self-interested market activities seem to be inseparable from how they frame their actions through uncertainty and ideational forces.

Keywords: Energy Sector in Turkey, Path-dependence, Politics of Institutional Change, Role of Ideas, State-business Relation

ÖZET

DEVLET-ŞİRKET İLİŞKİSİNDE KURUMSAL DEĞİŞİM POLİTİKLARI: TÜRK ELEKTRİK SEKTÖRÜ VAKA İNCELEMESİ

Kılıç, Mesut

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Tez Danışmanı: Dr. Öğr. Üyesi Pınar İpek

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Türkiye'deki elektrik sektörü, 2000'li yılların başlarından itibaren, Elektrik Piyasa Kanunu'nun 2001 yılında yasalaşması ve 2004 Enerji Strateji Belgesi'nin (ESB) Yüksek Planlama Kurulu tarafından yayınlanmasıyla birlikte, kurumsal bir değişime tanık oldu. Devlet, bu yeni kurumsal çerçeve içerisinde, elektrik üretim ve dağıtım sektörlerinde tekel olmaktan vazgeçiyor ve operasyonlarının önemli bir kısmını özel şirketlere devretti. ESB'de sektördeki bu kurumsal değişimin ana nedenlerinden biri "arz güvenliği" olarak gösterilse de, süreç içerisinde Türkiye'deki doğal gaz ve elektrik piyasası arasındaki karşılıklı bağımlılık önemli derecede arttı. Dolayısıyla, Türk elektrik sektöründeki bu gelişme kurumsal değişim politikaları bağlamında devlet-şirket ilişkisi hakkında daha fazla araştırma yapmayı gerektiriyordu. Bu tez, Türk elektrik sektöründeki kurumsal değişim politikalarını anlamak ve açıklamak için bu politikaları üç ana teori çerçevesinde ele almıştır: Rasyonel Seçim, Tarihsel Kurumsalcılık ve Yapısalcılık. Tez, Türk elektrik sektöründeki kurumsal değişim sürecini inceledikten sonra şu sonuca varmıştır: Dış kaynaklı bazı faktörlerin yanı sıra, Türkiye'de, devlet-şirket ilişkisinin tarihsel gidişatı içerisinde patika bağımlı kurumsal değişimin iç kaynaklı süreci görülmektedir. Elektrik piyasasındaki paydaşların çıkarcı piyasa eylemleri, bu paydaşların piyasa eylemlerini belirsizlik ve fikirsel güçlerin etkisiyle çerçevelendirmelerinden bağımsız değildir.

Anahtar Kelimeler: Devlet-şirket İlişkisi, Fikirlerin Rolü, Kurumsal Değişim Politikaları, Patika Bağımlılığı, Türkiye'de Enerji Sektörü

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TABLE OF CONTENTS

ABSTRACT.....i

ÖZET.....ii

ACKNOWLEDGMENTS.....iii

TABLE OF CONTENTS.....iv

LIST OF TABLES.....vii

LIST OF FIGURES.....viii

CHAPTER 1 INTRODUCTION.....1

CHAPTER 2 THEORETICAL FRAMEWORK (STATE-BUSINESS RELATION AND POLITICS OF INSTITUTIONAL CHANGE).....6

2.1. State's Role in Economic Development.....6

2.1.1. Neopatrimonial States.....7

2.1.2. Cohesive-Capitalist States.....9

2.1.3. Fragmented-Multiclass States.....11

2.2. Politics of Institutional Change.....16

2.2.1. Rational Choice Arguments for Institutional Change.....16

2.2.2. Historical Institutionalism and Gradual Change.....19

2.2.3. Constructivism and Institutional Change.....23

2.2.3.1. Ideational Forces and Material Interests in Double Movement: The Case of Energy Sector in Turkey…….32

2.3. Methodology……36

2.3.1. Data collection and Sample…….38

CHAPTER 3 HISTORICAL BACKGROUND IN STATE-BUSINESS RELATION AND INSTITUTIONAL CHANGE IN TURKEY'S ENERGY SECTOR……..41

3.1. 1st Period (1923-1930)……42

3.2. 2nd Period (1930-1950)……44

3.3. 3rd Period (1950-1960)……46

3.4. 4th Period (1960-1980)……48

3.5. 5th Period (1980-2001)……51

3.6. The puzzle for my research question……56

CHAPTER 4 THE ROLE OF UNCERTAINTY, IDEAS, AND PARADIGM SHIFT IN POLITICS OF INSTITUIONAL CHANGE IN ELECTRICITY PRODUCTION (2001-2017)……61

4.1. Major Institutional Changes and Structural Constraints in Domestic Electricity Market……61

4.1.1. The 2001 Law on Electricity Market (The Law No. 4628) and The 2004 Strategy Paper (Reform in Electricity Sector and Privatization Strategy Paper)……61

4.1.2. Restructuring of Turkey's Economy: The Conditionality of IMF Loans and Turkey's Accession Process to the EU……65

4.1.3. Turkey's Increasing Energy Demand and Energy Imports.....66

4.2. Politics of Institutional Change in Electricity Market in the Context of State-Business Relation.....66

4.2.1. Self Interests of Actors and Gradual Change in Politics of Institutional Change.....66

4.2.2. Constructivism and Politics of Institutional Change.....72

4.2.2.1. Uncertainty, Ideas, and Paradigm Shift in Electricity Sector in Turkey.....72

4.2.2.2. The Paradox of Liberalism as an Endogenous Process of Path Dependent Institutional Change within the Historical Trajectory of State-Business Relation in Turkey.....79

CHAPTER 5 CONCLUSION 96

REFERENCES.....103

APPENDICES.....108

A. POPULATION OF FIRMS.....109

B. INTERVIEW DATES.....116

C. INTERVIEW QUESTIONS.....117

LIST OF TABLES

1. Main Characteristics and Policy tool comparison of Cohesive-capitalist & Fragmented-multiclass states……...15

2. Sample List of Interviews…….....40

3. Producers, net exporters, and net importers of natural gas, 2016……60

4. Interview Dates……116

LIST OF FIGURES

1. Electricity Generation and Shares by Energy Resources (2018), Turkey …….....55

2. Global Electricity Generation and Shares by Energy Resources (2015) & Turkey's Electricity Generation and Shares by Energy Resources…….……59

3. Distribution of Electricity Generation by Public & Private Sectors (2018), Turkey….63

CHAPTER 1

INTRODUCTION

During the 1990s, Turkish privatization process was relatively unsuccessful in the electricity production sector. However, since the early 2000s, the sector has witnessed an institutional change, with the enactment of Electricity Market Law (EML), 2001, and the declaration of the Strategy Paper published by the Higher Planning Council published in 2004. Within this new institutional framework, the state has been giving up its monopoly in electricity production and distribution sectors and transferring some of these operations to private companies. There were several motivations for the observed institutional change. First, the state was technically incapable of meeting projected electricity demand of Turkey. Second, during the 1990s, Turkey experienced serious economic crises. The state was economically incapable of meeting the highly needed investment amount into energy sector so that it could keep its role in the sector. Third, the International Monetary Fund (IMF) and the European Union (EU) asked for privatization and liberalization process in the electricity sector through the conditionalities in stand by agreements and Turkey's accession process to the EU, respectively.

Accordingly, this thesis examines the following research question:

Which factors are more plausible in understanding and explaining the politics of institutional change in state-business relation in the energy sector, specifically in electricity generation from natural gas?

I specifically focus on the electricity generation from natural gas because of the puzzle as follows:

Although one of the main reasons of privatization in electricity sector, indicated in the 2004 Energy Strategy Paper (ESP) is security of supply, Turkey's interdependence between natural gas and electricity markets has substantially increased.

In 2004, the share of natural gas in generating electricity was 41.3 per cent. However, it peaked with 49.7 per cent in 2008 and slightly decreased to 47.9 per cent in 2014. Even today, the share of natural gas in generating electricity is more than 35 per cent, while it can exceed 45 per cent during high demand times in winter months.

Thus, despite the new institutions introduced into the energy market after the 2001 economic crisis, persistently high share of natural gas in electricity generation is puzzling and requires further investigation of state-business relation in the context of politics of institutional change in electricity market.

My methodology is case study of Turkish electricity sector and particularly electricity generation from natural gas. This sector is important for understanding and explaining the politics of institutional change in state-business relation, because electricity generation from natural gas has the biggest share in energy mix in Turkey. I collected data from the official documents and conducted several interviews with private firm, business association representatives in the electricity sector, and officials in the Ministry of Energy and Natural Resources.

In this study, I firstly consider Kohli's typology for states' role in economic development. And, it can be argued that both cohesive-capitalist and multi-class fragmented state types are observed during different periods of Turkey's economic

development. This means that Turkey should have been experiencing a number of institutional changes, associated with different political coalitions between state and business in economic development.

I also consider three different theoretical perspectives, namely rational choice, historical institutionalism, and constructivism in understanding and explaining the politics of institutional change in state-business relationship in Turkey. Rational choice scholars think that the main drive of institutional change is self-interest. Human beings as individuals created organizations and institutions to purse their own self-interests. Thus, institutions are merely seen as instrumental creations of individuals. They make use of these institutions to enlarge their own personal utilities. Therefore, according to rational choice theories, institutional change only takes place when it bears more benefits for the actors.

Historical institutionalists argue that a historically constructed set of institutional restrictions and opportunities affects the behavior of political actors and interest groups that engage in the policy process. They underscore path dependence and unintended consequences in institutional construction. Moreover, current studies in historical institutionalism argue that institutional change is accountable as an ideationally path-dependent process in which agents construct their institutional future from a limited set of ideas. According to these studies, institutional change arises from endogenous sources of instability, and that endogenous mechanisms of change are more influential than exogenous ones, referring to “gradual change.” Gradual change more specifically has four different categories, namely “displacement,” “layering,” “drift,” and “conversion.”

Constructivist scholars argue that it is necessary to develop a better understanding than that of Karl Polanyi's double movement concept in order to understand and explain politics of institutional change. Even though double movement is still significant today, it separates the market from society and supplants the institutions of social protection with more market-conforming institutions. Nevertheless, the political uses of economic ideas and politics of organized business can be employed to develop a better theoretical understanding. Ideas allow agents to decrease uncertainty, suggest a specific solution to a moment of crisis, and empower agents to resolve the crisis. Thus, new ideas are important components in constructing politics of institutional change. They briefly argue that social scientists need to reconsider the link between ideas and interests.

Having conducted 15 interviews, and examined the official papers, and secondary resources, I argue that

Despite the extent of exogenous factors, there is an endogenous process of path dependent institutional change within the historical trajectory of state-business relation in Turkey.

The perceived understanding of stakeholders in the electricity market about their self-interested market activities seem to be inseparable from how they frame their actions through uncertainty and ideational forces.

The thesis contains five chapters. Following the introduction chapter, the second chapter presents the theoretical framework to examine politics of institutional change in state-business relation and the hypotheses that I consider for my research question. The third chapter looks into the historical background in state-business relation and an overview of the institutional change in Turkey's energy

sector. In light of the role of state in Turkish political economy and institutional changes in energy sector, the historical background is divided into five periods: 1st Period (1923-1930), 2nd Period (1930-1950), 3rd Period (1950-1960), 4th Period (1960-1980), and 5th Period (1980-2001), respectively. The fourth chapter demonstrates the main findings of the thesis. It concludes that there is an endogenous process of path dependent institutional change within the historical trajectory of state-business relation in Turkey. The perceived understanding of stakeholders in the electricity market about their self-interested market activities seem to be inseparable from how they frame their actions through uncertainty and ideational forces within the gradual institutional change.

CHAPTER 2

THEORETICAL FRAMEWORK: STATE-BUSINESS RELATION AND POLITICS OF INSTITUTIONAL CHANGE

2.1. State's Role in Economic Development

The state has always been at the heart of economic development, especially in developing states. This observation leads scholars to consider the state as the most significant economic actor in peripheral countries. Energy sector is no exception of this general rule, since the infra and superstructure of the sector has a high-risk in and high-cost of investment; and the role of private sector is expected to be limited in the initial stages of economic development. In fact, the state in late-industrialized developing countries has been particularly influential in energy sector given the lack of large capital accumulation in private sector or bourgeoisie, if any, in the early phases of their industrialization.

Nevertheless, we can see changing role of state in energy sector through different periods of industrialization process and economic development in developing countries. In this regard, historical context of state-business relation in Turkey matters to understand and explain the contingent conditions for politics of institutional change in energy sector, and especially the case of electricity generation from natural gas. In this section, I look at the role of state to describe characteristics and various policy tools of different state types, which influence economic development, and specifically industrialization at different levels. There is vast literature on the state's role in economic development. I focus on Kohli's

(2004) work since he has an inductive approach to examine different degree of industrialization among developing countries. He has in-depth case studies of Nigeria, Brazil, India, and South Korea. In light of Kohli's state typology, I question the state's role in Turkey's economic development and consider some of the described characteristics to identify how Turkish state has intervened into politics of institutional change in the case of electricity sector.

Kohli asserts that in order to compare and analyze state types in development, one need to consider a number of specific characteristics, which are "leadership goals, degree of centralization of public authority, downward penetration of public authority, political organization of the mobilized political society, scope of state intervention in economy, and quality of the economic bureaucracy" (Kohli 2004, p. 12). According to Kohli, there are three historical patterns of how state authority is organized and used in the developing world: neopatrimonial states, cohesive-capitalist states, and fragmented-multiclass states (Kohli 2004, p. 9).

2.1.1. Neopatrimonial States

All modern states have centralized authority and coercive control over a specific territory. They also have a well-established public arena that can be distinguished from private interests and their pursuits. This distinction between the public and private sphere of activities is quite weak in several developing country states. Thus, a number of states emerged with weakly centralized and legitimate authority structures, self-interested leaders not limited by institutions, and bureaucracies of poor quality. Kohli marks these states as neopatrimonial, for "despite the façade of

modern state, public officeholders tend to treat public resources as their personal patrimony" (Kohli 2004, p. 9). As a result, these states are quasi-modern states - neither completely modern nor accurately rational-legal states.

Under neopatrimonial state support, state-led development has frequently resulted in disaster to the extent that personal and/or narrow group interests have usually undermined state capacity and public goals. Kohli states that neopatrimonial states have come to exist in societies with weak private sectors. They, like cohesive-capitalist and fragmented-multiclass states, have also intervened overwhelmingly in their economies but with destructive results. Instead of strengthening the private sector, however, these states have seized scarce economic resources, hindering efficient allocation of available resources towards productive investment (Kohli 2004, p. 15). Therefore, inconsistent economic policies, failure to bolster domestic capitalists, poorly educated work force, and political instability have contributed to the substantial weakness of the national private sector.

Neopatrimonial states have dealt with economic activities directly or invited foreign producers to overcome the deficiencies and to meet the public needs. However, importing goods or attracting foreign investments can be taken as supportive means only if the state has alternative sources (Kohli 2004, p. 15). These states depend on foreign resource and expertise as they lack of organizational skills, sufficient domestic capital, and political capacity (Kohli 2004, p. 11). The least succeeded countries in industrialization have been the states that have had no clear public goals and whose leaders reduced the state to a personal interest tool. These neopatrimonial states have composed of a remarkable part of the periphery. The main drive for state intervention has often been the need to build short-term

political support through patronage and/or by personal greed. As a result, Kohli indicates that "the relationship of the state and the private sector in such contexts has just as often been mutually corrupt: political instability, inconsistent policies, and pilfering of public resources for personal and sectional gains have all hurt state-led efforts to promote industry and growth" (Kohli 2004, p. 15).

According to Kohli, in the contemporary developing world, cohesive-capitalist and fragmented-multiclass states are two of the other ideal-typical states (Kohli 2004, p. 13). In the developing world, modern rational-legal states have become inclined to two main dimensions: "cohesion of state authority and the state's class commitments" (Kohli 2004, p. 13). The former is committed to working with capitalists, while the latter rests its power and goals on a more multi-class base.

2.1.2. Cohesive-Capitalist States

The cohesive-capitalist states can be called developmental states. In terms of the political effectiveness and durability, they are opposite to neopatrimonial states (Kohli 2004, p. 14). Kohli argues that in some way or other cohesive-capitalist states have demonstrated to be the most successful state-led industrialized states in developing countries (Kohli 2004, p. 11).

The main characteristics of these states are cohesive politics – centralized and purposive authority structures that often penetrate deep into the society. These states are inclined to put rapid economic growth and national security in the same equation. They forge a close link with society's major economic groups, producer or capitalist groups with effective political instruments, like a competent bureaucracy.

In order to get acceptance from society, ruling authority often use ideological mobilization, such as nationalism and/or anti-communism. Cohesive-capitalist states in developing countries, according to Kohli, follow repressive and authoritarian policies, sharing some organizational and class features with fascist states of interwar Europe (Kohli 2004, p. 15).

Cohesive-capitalist states have by and large turned their countries into state-guided corporations, being the fastest in terms of their economic growth rate among peripheral countries. They have been growth-oriented and devoted themselves to high growth by developing trade and industry with well-designed, stable, properly implemented interventionist policies. Kohli states in his book, titled *State-directed Development* that "specific policy measures varied but were generally aimed at easing supply-and-demand constraints faced by private entrepreneurs" (Kohli 2004, p. 13). According to Kohli's findings, for example, on the supply side cohesive-capitalist states help to facilitate the availability of capital, labor, technology, and even entrepreneurship. On the demand side, the examples for cohesive state's interventions include expansionist monetary and fiscal policies, and tariffs and exchange-rate policies. If these measures are not sufficient, then the state adopts newer policies to shift the focus on export promotion or, more likely, production for both domestic and foreign consumption.

Cohesive-capitalist states make considerable efforts and use an extensive set of policy tools to reach economic growth targets, such as well-functioning tax collection and public investment; allocation of publicly controlled banks credit directly to selected private firms and sectors; shifting resources from agriculture and urban labor to private industrialists via inflation; abundant supply of cheap,

flexible, and disciplined labor; public investment in education and research and development; state's bargaining power and incentives to enable technology transfer by multinational firms' direct investment; devaluated exchange rates, subsidized exports, and suppressed wages to contribute to private sector's capital accumulation following productivity gains (Kohli 2004, p. 13).

In summary, the key features of cohesive-capitalist states are emphasized as: "the top leadership equating rapid economic growth with national security, a highly centralized and penetrating public authority, state-controlled political society (though in close alliance with capitalist groups), and a highly interventionist state, with a good quality economic bureaucracy" (Kohli 2004, p. 12). Thus, in cohesive-capitalist states we observe state-business relation institutionalized pragmatically for capitalist development rather than those relations that are institutionalized ideologically promarket (Kohli 2004, pp. 13-14).

2.1.3. Fragmented-Multiclass States

Fragmented-multiclass state represent the middle position in between the two extreme end of state typology, namely neopatrimonial and cohesive-capitalist states in terms of their political effectiveness. Kohli conceptualizes fragmented-multiclass states as real modern states unlike the conceptualization of neopatrimonial states. The main difference of fragmented-multiclass state from cohesive capitalist state is that public authority is prone to be more fragmented and based on a broader class alliance. Hence, fragmented-multiclass state's policy goals are not narrowly focused or effectively defined as those in cohesive-capitalist states

(Kohli 2004, p. 11). The political leader should be more worried about political support than do leaders in other state types in developing countries. Accordingly, not only industrialization and economic growth but also agricultural development, economic redistribution, welfare provision, and maintaining national sovereignty are significant policy goals.

Mixed political goals of fragmented-multiclass states have had several consequences for development policy design and implementation. First, ruling elites have been less focused on using state intervention strictly in terms of growth consequences. Instead, they spread goals that enable various groups and individuals to access state resources for consumption-oriented short-term benefits. Second, the relationship between state and business has been remarkably more complex than those in cohesive-capitalist states. The fragmented-multiclass states have been both cooperative and conflictual towards the private sector. Last, both policy making and implementation processes have been more politicized, weakening their unilateral effectiveness (Kohli 2004, p. 14).

The main characteristics of fragmented multi-class states are the following: limited tax-collecting capacities, various public-spending priorities with numerous purposes other than growth promotion, efforts to direct credit turning into nepotism, inflation as a liability for political leaders concerned about their legitimacy, and monetary and fiscal policies for legitimacy (Kohli 2004, p. 14). Further, fragmented-multiclass states have been neither more nor less interventionist than cohesive-capitalist ones. These states' development policy goals aimed not only at promoting growth but also at increasing legitimacy and short-term welfare provision. They

have been, however, mostly less effective at easing the supply-and-demand limitations.

The state elites' periodic hostile behavior towards private investors has made both domestic and foreign investors reluctant to invest. Moreover, because of tariff and exchange rate policies, which were adopted to protect national economy, the demand for domestic goods has increased. Thus, powerful domestic interest groups have often been created (Kohli 2004, pp. 14-15). In short, fragmented-multiclass and cohesive-capitalist states both promote industrialization; however, fragmented-multiclass states do so less effectively because their goals were more plural and their political capacities less developed (Kohli 2004, p. 15).

Within the framework of Kohli's typology for states' role in economic development, it can be argued that both cohesive-capitalist and multi-class fragmented state types are observed during different periods of Turkey*'s* economic development. This means that Turkey should have been experiencing a number of institutional changes, associated with different formal and informal rules, norms and political coalitions for the role of state in economic development. Furthermore, according to Woo-Cumming (1999), state-led development involves a combination of political, bureaucratic, and monetary influences that form economic growth, development, and industrialization. The state employs different tools to intervene into selected sectors for economic development.

In this study, I consider major sources of state intervention particularly into energy sector. Among different sources of state intervention, I focus on bureaucracy and state capacity that can be observed in the institutionalized relations between state and business (Woo-Cumming 1999, pp. 64, 98). Further, I argue that Turkey has

never been in the category of “Neopatrimonial” state. Because states in this type are in constant need of foreign source and expertise as they lack of organizational skills, sufficient domestic capital, and political capacity. They do not have any clear public goals and intervene in private sector solely for politicians’ personal interests. When I consider state-business relation as a process in the historical context of Turkey’s economic development, therefore, I exclude intervention tools of neopatrimonial states from this study.

However, I argue that Turkey showed main characteristics of cohesive-capitalist and fragmented-multiclass states in different periods. In order to understand whether and how Turkey employs cohesive-capitalist or fragmented-multiclass policy tools in the context of institutional change in the energy sector, I concentrate on these two state types’ intervention policy tools and bureaucracy and state capacity as major sources of state intervention.

The main characteristics and policy tools of these state types can be seen in Table 1. I focus on tax collection and exemption capabilities, state incentives, regulations, privatization rates and techniques, public and private investment rates, and pricing mechanism tools. These selected policy tools would help to examine my hypotheses. In the light of available data from interviews, legislations, and official reports, I try to understand and explain how state type of Turkey has shaped state-business relation by employing these policy tools in the context of institutional change in the energy sector.

In the next section, I consider major theoretical approaches to understand and explain for the politics of institutional change between within the historical context

of state and business relations in energy sector, specifically in electricity generation from natural gas. The politics of institutional change is the theoretical background for my second and third hypotheses.

Table 1: Main Characteristics and Policy tool comparison of Cohesive-capitalist & Fragmented-multiclass states (Kohli 2004)

The main characteristics and policy tools of Cohesive-capitalist & Fragmented-multiclass states	
The main characteristics	
Cohesive-capitalist state	**Fragmented-multiclass state**
• follow growth-oriented economic policies and strictly devoted themselves to high growth by developing trade and industry with well-designed, stable, properly implemented interventionist policies. • turn their countries into state-guided corporations, being the fastest in terms of their economic growth rate among peripheral countries. • put rapid economic growth and national security in the same equation. • establish a close link with society's major economic groups, producer or capitalist groups with effective political instruments. • follow repressive and authoritarian policies, sharing some organizational and class features with fascist states of interwar Europe. • emphasize on ideological mobilization, such as nationalism and/or anti-communism.	• follow not only industrialization and economic growth but also agricultural development, economic redistribution, and welfare provision. • less focused on using state intervention strictly in terms of growth consequences. • prone to be more fragmented and based on a broader class alliance. • enable various groups and individuals to access state resources for consumption-oriented short-term benefits. • both cooperative and conflictual towards the private sector. • more worried about political support • policy making and implementation processes have been more politicized, weakening their unilateral effectiveness • maintain national sovereignty and significant policy goals.
The main policy tools	
Cohesive-capitalist state	**Fragmented-multiclass state**
• well-functioning tax collection and public investment • allocation of publicly controlled banks credit directly to selected private firms and sectors • shifting resources from agriculture and urban labor to private industrialists • state's bargaining power and incentives to enable technology transfer by multinational firms' direct investment • subsidized exports • contribution to private sector's capital accumulation	• limited tax-collecting capacities • various public-spending priorities with numerous purposes other than growth promotion • efforts to direct credit turning into nepotism • monetary and fiscal policies for legitimacy

2.2. Politics of Institutional Change

I have divided this section into three main parts, articulating the theoretical background for competing explanations in the intuitional change literature. There are three main theories to understand and explain the politics of institutional change, namely rational choice, historical institutionalist, and constructivist theories.

2.2.1. Rational Choice Arguments for Institutional Change

Rationalist theories explaining institutional change are grounded in the basic assumptions of microeconomics. So, they consider agents' preferences as the primitives. If agents' preferences are taken as the reference point, then all social structures and institutions are degradable to individual utility units. Keynes states that the economy is separated from the wider social, political, and cultural context. The maximization of material self-interest is directly linked with individual behavior. In the capitalist economic system, the private property appears as the key factor. In this regard, Douglas North reduces the foundation of organizations and institutions, and therefore, the politics of institutional change to the individual level.

According to North, first, organizations are comprised of political, economic, social, and educational bodies. And, they are groups of individuals having some common purpose to achieve objectives. Institutions are the rules of the game in a society, and are constraints that form human interaction. Both organizations and institutions are, thus, a creation of human beings. That is, they evolve and are altered by human beings; thus, the theory must begin with the individual (North

1990, pp. 3, 5). Hence, all social phenomena and outcomes must be intentional at the very basic level, and institutions can thereby merely be seen as instrumental products. Individuals use these products in order to maximize their personal utilities. Therefore, from rationalist theories' perspective, institutions change only in accordance with rapidly shifting contract curves, cost/benefit trade-offs, and the like (Blyth 2002, p. 19).

The seminal works that include ideas in explaining are those of Douglass North (1987, 1990), and of Judith Goldstein and Robert O. Keohane (1993). North was dissatisfied with the incapability of classic economic theories explaining institutional change. He developed a theory of institutional supply based on the concepts of transactions, costs, uncertainty, and ideology. From North's point of view, rationalist theories mistreated three problems. The first one was explaining institutional supply from rationalist microfoundations. Essentially, making a rational choice for institutions from a number of possible alternatives was impossible. Hence, institutional design concepts of rationalist theories became questionable. Second one was the following. Even though institutions are a rational response to transacting problems, their generation is a collective action problem, which has no exogenous solution. The last one was the problem of commitment. In other words, it is not logical that rational egoists abide by institutions, considering that institutions are only self-enforced constraints (Blyth 2002, pp. 23-24). By incorporating ideas into a transaction cost theory of institutions, North tried to produce answers to the questions above. According to North, ideas enable us to explain how agents defeat collective action problems and produce institutions while still adhering to individualist micro foundations.

Building upon the work of North, Goldstein and Keohane develop the distinction between different types of ideas – namely, "principled beliefs, causal beliefs, and worldviews." They argue that even type of idea is important in explaining institutional change (Blyth 2002, p. 24). Principled beliefs are considered as the normative bases and justifications for particular decisions. Causal beliefs include strategies for the achievement of goals, because of shared principles. Worldviews are the whole cognitive framework of an agent and/or cultural combination of entire groups and classes (Goldstein and Keohane 1993, pp. 63-65). Thus, ideational analysis of Goldstein and Keohane is more diversified than of North.

Raymond Geuss argues that true interests can be assessed, and therefore acted upon, merely under optimal condition with perfect information (Geuss 1981, pp. 45-55). The full range of alternatives and their relative costs become apparent to the agent only under such conditions. Moreover, the processing skills of agents are equivalent with perfect information. Hence, with perfect information, any of two different agents from the same class, sector, or position would make the same objective evolution and the same choice. On the other hand, North argues that uncertainty is the outcome of the complexity of the problems deriving from incomplete information between agents (North 1987, p. 25). Therefore, the lack of information among agents is the fundamental reason to devise institutions. By doing so, uncertainty can be overcome.

According to rational choice arguments, the impetus of institutional change is self-interest. Organizations and institutions are a creation of human beings. Therefore, institutions can only be seen as instrumental creations of individuals. They use these institutions to maximize their own personal utilities. Hence, from the point of

view of rational choice theories, institutional change only occurs when it bears more benefits for the actors.

Accordingly, the first hypothesis of the thesis is as follows:

The self-interests of companies and politicians have a dominant role in shaping the politics of institutional change in electricity generation from natural gas in Turkey.

2.2.2. Historical Institutionalism

Historical institutionalism is based on the presumption that a historically constructed set of institutional limitations and opportunities influences the behavior of political actors and interest groups that engage in the policy process (Steinmo, Thelen, and Longstreth 1992; Pierson 1994). Contrary to sociological and rational choice institutionalisms, historical institutionalists concentrate on asymmetrical power relations and the effect of long-term institutional legacies on policymaking (Hall and Taylor 1996).

Historical Institutionalism's core argument is that institutions structure individuals' preferences (Pierson 1994; Thelen 2002). Contrary to the rational choice argument that the preferences of individuals structure institutions, historical institutionalists concentrate on path dependence and the unintended consequences of institutional construction. Thus, they have a core concern with the way institutional processes unfold overtime (Pierson 2011, p. 33).

Historical institutionalists have been critical in bringing ideas "back in" and opening up the possibility that ideas are themselves transformative of institutions. The assumptions behind this body of theory, however, indicate that ideas tend to be seen, especially in earlier works (Bates 1988, pp. 389-390; Sikkink 1991, p. 3). Ideas

were considered to explain the anomaly of change within otherwise a static approach in the orthodox theories of historical institutionalism, which concentrate on path dependence and the unintended consequences of institutional construction (Steinmo, Thelen & Longstreth 1992; Hall and Taylor 1996, p. 943). According to this school, institutional change is explicable as an ideationally path-dependent process where agents build their institutional future from a limited set of ideas. Therefore, path dependence refers to the restrictions of newly established institutions, which stems from already established ones. Moreover, as institutions have multiple effects, actors have limited time horizons and information. Therefore, institutions may lead to unanticipated and unintended consequences (Clemens & Cook 1999; Pierson 2011, pp. 115-118).

Historical institutionalists have generally no interest in institutional change (Clemens & Cook 1999). Their main focus has been on the concept of path dependence. However, historical institutionalism has recently begun to offer comprehensive theoretical accounts of ideas and institutional change, trying to explain and understand how institutions change over time (Thelen 2003, 2004; Streeck & Thelen 2005). Streeck and Thelen states that after analyzing several institutional changes, they decided to concentrate on “gradual change,” which stems from endogenous sources of instability. Mainly they argue that endogenous mechanisms of change are more influential than exogenous ones. According to Streeck and Thelen, there are four different categories of gradual change: “displacement,” “layering,” “drift,” and “conversion.” Displacement means the removal of old institutional rules and the replacement of the new ones. Layering refers to the introduction of new regulations without displacing the old ones. Drift

happens where there is no change in formal regulations but where the effect of existing regulations changes because of changes in the wider environment. Conversion appeals to situations where regulations stay the same but are interpreted and enacted in new ways (Streeck &Thelen 2005, pp. 22-26).

Mahoney and Thelen developed this framework further in order to provide an explanation for why specific types of changes are prone to occurring in particular political contexts and in institutions with specific features (Mahoney & Thelen pp. 16-21). They think that while both displacement and layering include the introduction of new formal regulations, it is the presence or absence of veto possibilities that determines which one happens. If there are actors in existing institutions having strong veto power, they are more likely to withstand displacement, leading to layering. The existence of strong veto probabilities via delegation to external agencies or via privatization proposes that layering could be a specifically common form of gradual change in the energy sector (Mahoney & Thelen 2010, pp. 23-25).

For example, Kern and Howlett's study examines the cases of institutional change in the energy sector of the Netherlands. Their findings demonstrate that the Netherlands has experienced to manage the energy sector in the existence of strong veto probabilities that shaped gradual change (Kern & Howlett 2009). The UK, on the other hand, has changed its institutions in energy sector through layering over the years starting from 2000s. The British experience implies displacement of one regime by another, and having layering characteristics for the support of decarbonization and energy security on top of a basic market approach (Helm 2005).

Drift and conversion, on the contrary, include the neglect or reinterpretation of existing regulations rather than the introduction of new ones. In the energy sector, since there is high sensitivity level about national security, and many institutional regulations, which include commercial relationships, actors are prone to having a low level of discretion in the interpretation or enforcement of rules. So, drift and conversion as forms of change are less common (Lockwood et al. 2017).

These studies, however, focus on highly industrialized countries that have early capitalist development. Thus, the case of state-business relation in electricity generation in Turkey is important given the contingent conditions of economic development in its historical context as a late industrializing developing country.

According to historical institutionalism, a historically constructed set of institutional limitations and opportunities influences the behavior of political actors and interest groups that engage in the policy process. In contrast to the rational choice argument, actors are limited in exerting fully their self-interests because especially path-dependent institutional constrains influence their preferences. Historical institutionalists emphasize path dependence and the unintended consequences in institutional construction. Further, new studies in historical institutionalism argue that institutional change is explicable as an ideationally path-dependent process in which agents build their institutional future from a limited set of ideas. These studies argue that institutional change stems from endogenous sources of instability, and that endogenous mechanisms of change are more influential than exogenous ones, referring to “gradual change.” Gradual change more specifically has four different categories, namely “displacement,” “layering,” “drift,” and “conversion.”

According to arguments of historical institutionalism for politics of institutional change, the second hypothesis of the thesis is as follows:

Gradual change, which stems from endogenous sources of instability, shapes the politics of institutional change in electricity generation from natural gas, in Turkey.

2.2.3. Constructivism and Institutional Change

Blyth (2002) argues that Polanyi's concept of the "double movement" still has a great value in understanding and explaining institutional change (Blyth 2002, p. 3). In the face of rising power of capitalism and the commodification of labor, labor mobilized and demanded protection from the state against the market, which led to a large-scale institutional change (Blyth 2002, pp. 3-4). According to Blyth, Polanyi fell into a fallacy in his thought, because Polanyi is of the opinion that the countermovement demanding protection through an institutional change against the capitalists was the end of double movement. Instead, Blyth underlines that it would be reasonable to expect capitalists to organize another movement against those institutions.

Nevertheless, Polanyi's double movement is still important today and the neoliberal economic institutions can be seen as the latest repetition of it. These institutions are attempting to separate the market from society and replace the institutions of social protection with more market-conforming institutions. Despite the fact that double movement as a theory of institutional change has some problems, it is still important and seems to have had another repetition or a reversal (Blyth 2002, p. 4).

Blyth argues that having experienced the Great Depression, the state and labor reacted to the collapse of the classical liberal order during the 1930s and 1940s by

increasing the state intervention over economy. During the 1970s and 1980s business reacted against this increased intervention in economy. Blyth states that "in this effort, business and its political allies were quite successful, and by the 1990s a new neoliberal institutional order had been established in many advanced capitalist states with remarkable similarities to the regime discredited in the 1930s" (Blyth 2002, p. 6). That is to say, high capital mobility, large private capital flows, market-conforming tools of macroeconomic management, a willingness to live through balance of payments, view of the rate of employment as dependent on the market-clearing price of labor have been the main features of both classical liberalism and neoliberalism. According to Blyth, in order to explain both sets of transformations, it is necessary to develop a better understanding than that of double movement.

The political uses of economic ideas and politics of organized business can be employed to develop a better theoretical understanding. Thus, focusing on ideas, specifically economic ones are vitally important components of institutional construction and change. Therefore, for Blyth, ideas and interests together are key elements of institutional change (Blyth 2002, pp. 6-7).

As economic structures are not presented with an instruction sheet, economic ideas make an institutional explanation by providing a diagnosis as to what a crisis actually is and when a given situation actually constitutes a crisis. Economic ideas analyze what went wrong and what is to be done. Thus, Blyth states that "the nature of a crisis is not simply given by its effects, dislocations or casualties, nor are the actions of agents simply given by their given interests" (Blyth 2002, p. 10). Instead, a particular set of ideas diagnoses a situation as a crisis. These ideas are

also taken as a construction that makes the uncertainty that agents perceive explicable, manageable, and actionable. Hence, key economic agents must use the economic ideas during economic crisis times (Blyth 2002, p. 10). Although Polanyi considered the double movement as a function of agents with structurally given interests, which react to self-apparent crises, Polanyi's argument other static versions of institutional change misses the importance of uncertainty and ideas in determining the form and content of institutional change (Blyth 2002, p. 10). Economic ideas account for the working of the economy by defining what economy constitutes and are "proper/improper" interrelations in economy. Therefore, economic ideas let agents decrease uncertainty, propose a specific solution to a moment of crisis, and empower agents to resolve the crisis in question, by constructing new institutions in accordance with these new ideas (Blyth 2002, p. 11). What Polanyi's double movement and other static versions also miss is a way of making institutional change dynamic, contingent, and political.

According to Blyth, exogenous material changes may help explain why a particular institutional order becomes unstable; however, they do not explain how the new or modified order becomes existent. Theoretically, there is no exogenous factor capable of explaining the specific forms that institutional change takes. "While the destabilization of existing institutions can be exogenously driven, moving from such a position to a new stable institutional order must be seen as an endogenous process" (Blyth 2002, p. 8). Blyth raises important questions that need to be especially analyzed, such as how agents redesign and rebuild institutional orders, and the conditions under which these activities take place.

Moreover, Blyth argues that the works of rational scholars show how ideas are frequently employed to define disconfirming outcomes within existing frameworks rather than investigating what ideas do by themselves. For example, Blyth presents the paradox in North's study. On the one hand, North argues that ideas make collective action, and therefore institutional supply, possible. However, on the other hand, he asserts that "institutions, by reducing the price we pay for our convictions, make ideas, dogmas, and fads important sources of institutional change" (North 1987, pp. 85-86). As a result, then, ideas produce institutions by enabling agents to overcome collective action problems. Meanwhile, existing institutions make ideas powerful by reducing the costs of action. Therefore, a "chicken and egg" or "agency and structure" paradox appears. If institutions enable ideas to be actionable, then no one can appeal to ideas to create institutions. Notwithstanding that if ideas create institutions, then no one can appeal to institutions to define ideational and thus institutional change (Blyth 2002, pp. 25-26).

Blyth also claims that the work of Goldstein and Keohane is not capable of resolving problems of explaining supply and stability. Common ideas can be seen as substantial in promoting cooperation. However, traditional instruments like side payments can function to boost cooperation more effectively. Additionally, ideas can serve as focal points, but it does not mean that ideas are constitutive of focal points. It is not obvious why a particular idea is chosen as the focal point. Instead of relying upon institutions to cope with collective action problems, the theorist depends on ideas. Nevertheless, as institutions are themselves collective action problems, they offer no real solution to the problems. Therefore, calling upon ideas cannot solve the problems either. As a result, ideas can merely be significant when

they constitute auxiliary hypotheses designed to explain disconfirming outcomes. In addition, social scientists have to reconsider the nexus between ideas and interests. Just in doing so, one can develop a theory of institutional change that takes ideas as genuinely transformative (Blyth 2002, pp. 26-27).

Regarding the rational choice argument about uncertainty, lack of information and therefore the need to design institutions, Blyth reminds us that informational asymmetries among agents may lead to situations of moral hazard and other agency problems. While Geuss (1981) and North's (1987) arguments assume that agents are aware of what their interests are, Blyth takes our attention that they are not just so sure how to pursue them given the behavior of others. Accordingly, under conditions of uncertainty, information is not the problem. The main problem is that agents are not sure as to what their interests actually are at the very beginning (Blyth 2002, pp. 28-29). If interests are the representations of beliefs and desires, and if agents are muddled about their desires, then agents' interests have to be unstable, too – especially in situations of high uncertainty. In situations of institutional instability, the conceptualization of interests change strictly (Blyth 2002, p. 30).

According to Blyth, the role of economic ideas is the substantial piece of the puzzle. Ideas may or may not mirror the real world; however, they are constructions that provide "agents with both a 'scientific' and a 'normative' account of the existing economy and polity, and a vision that specifies how these elements should be constructed" (Blyth 2002, p. 11). Furthermore, assuming that economic change

often creates "Knightian uncertainty[1]" (Knight 1921). When even an economic crisis occurs with uncertain origins, economic ideas become even more remarkable, because they serve as simplifying blueprints that dictate agents what to do and what future to anticipate. Some scholars like Jens Beckert think that uncertainty is the main feature of situations where agents cannot predict the result of a decision and cannot assign probabilities to the result (Beckert 1996, p. 804). Further, Frank H. Knight notes that uncertainty is much more a probability distribution problem (Knight 2012, p. 53). Uncertain situation is different from a situation of risk. In situations of risk, the distribution of outcome is known with monitoring previous instances. However, in situations of uncertainty, every single situation is unprecedented. That is, it is worthless to monitor previous instances – even the word of "instance" is irrelevant for situations of uncertainty, because it is impossible to form a group of instances. Agents cannot predict what possible outcomes are likely, and therefore what their actual interests are (Blyth 2002, pp. 31-32).

Building upon these basic assumptions, Blyth establishes five particular sequences about how institutional change occurs. First, ideas decrease uncertainty in periods of economic crisis. Second, following the uncertainty reduction, ideas gather the actors around them and make collective action and coalition building possible. Third, after coalition building and collective action process, ideas are used as weapons to struggle over existing institutions. Fourth, following the delegitimation of existing institutions, new ideas act as institutional blueprints. Fifth, having built a

[1] "Knightian uncertainty" is a concept to distinguish true unknowns from more quantifiable risks. The concept recognizes a fundamental degree of ignorance, a limit to knowledge, and an essential unpredictability of future events.

new institutional construction, ideas make institutional stability possible (Blyth 2002, pp. 34-36).

Contrary to rational choice argument, "individuals do not intervene in the world on the basis of ad hoc generalizations distilled from randomly gathered information" (Blyth 2002, p. 32). Rather, complex set of ideas enable agents to order and interfere in the world by aligning agents' beliefs, desires, and purposes. By developing ideas, therefore, agents decrease uncertainty to a significant level, by shrinking possible interpretations of the crisis, and hence courses of action. Therefore, after accepting ideas as having different casual effects in different periods as part of a sequence of change, one can explain both stability and change (Blyth 2002, p. 35).

Further, Blyth argues that historical institutionalists treat the institutions as "ontologically prior to the individuals who constitute them" (Blyth 2002, p. 19). If individuals' interests were institutionally originated, Blyth underlines that it makes little sense to appeal to individuals as sources of institutional change (Blyth 2002, pp. 19-20). Although historical institutionalism does not neglect ideas, they pay insufficient attention to analyzing the independent effect of ideas on outcomes and institutions (Blyth 1997; Campbell 1998; Schmidt 2010).

Correspondingly, Alexander Wendt argues that one needs to consider what is desired as a sociological construction rather than a material given, because our concentration to the schemas and representations via agents determines their interests and the roles that such schemas denote (Wendt 1999, p. 124). According to Wendt, "we want what we want because of how we think about it, and not because of any innate properties of the object desired" (Wendt 1999, p. 119).

Therefore, although ideas are much more relevant components to gain insight into institutions, one needs to understand how people construct their ideas. Social context should be considered as one of the most significant elements to form ideas (Blyth 2002, p. 29).

According to Hall, state-centric and state-structural theories are different from each other. The former refers to "the autonomy of the state from societal pressure," that is state officials are independent from the influence of interest groups and political parties (Hall 1993, p. 276). The latter refers to the important role of "interest groups, political parties, and other actors outside the state." These theories emphasize that the structure of past state activities generally influences the nature of the demands of these actors (Hall 1993, p. 276). Following the differentiation of the theories, he tries to understand the relationship between ideas and policymaking and to what extent ideas are important in policy changes. According to Hall, ideas are central to policymaking. Policy makers follow procedures within a framework of ideas and standards (Hall 1993, p. 279). Therefore, Hall states that policy makers act in accordance with policy paradigms. In this regard, he employs British financial system as an example, emphasizing how Keynesian ideas constructed the procedures of the British Treasury. Hall takes Thomas Kuhn's model to locate the different sorts of policy change relative to one another.

Hall (1993) conceptualizes three types of change, namely First, Second, and Third Order. First and Second order change are seen in cases of "normal policymaking," a process which adjusts policy without challenging the overall terms of a given policy paradigm. Third order change, however, is keen on mirroring a very different process that leads to radical changes in the existing structure of policymaking,

which is associated with a “paradigm shift” (Hall 1993, p. 279). Hall states that first and second order changes do not necessarily lead to the third order change. It can occur quite differently (Hall 1993, p. 280).

First order change is likely to happen in a gradual process. Second order change and the development of new policy tools may move faster in the direction of strategic action. The third order change, however, refers to a comprehensive alteration in the system, called paradigm shift. Hall states that if the existing paradigm is genuinely not be able to deal with unusual developments, it will end up with policy failures that step by step undermine the authority of the existing paradigm and its protagonists. Hence, the movement from one paradigm to another in third order change is “likely to involve the accumulation of anomalies, experimentation with new forms of policy, and policy failures that precipitate a shift in the locus of authority over policy and initiate a wider contest between competing paradigms” (Hall 1993, p. 280) . The third order change will end only when the protagonists of a new paradigm secure their positions over existing policymaking and are capable of readjust the organization and standard operating procedures of the policy process so as to institutionalize the new paradigm (Hall 1993, p. 281).

According to constructivist scholars’ argument, in order to understand and explain politics of institutional change, it is necessary to develop a better understanding than that of double movement concept of Karl Polanyi. Although double movement is still important today, it separates the market from society and replaces the institutions of social protection with more market-conforming institutions. However, the political uses of economic ideas and politics of organized business can be employed to develop a better theoretical understanding. According to

constructivist scholars, ideas (world views, desires, and purposes) allow agents to decrease uncertainty, propose a specific solution to a moment of crisis, and empower agents to resolve the crisis in question. Therefore, new ideas matter in constructing politics of institutional change .They argue that social scientists have to reconsider the nexus between ideas and interests. Just in doing so, one can develop a theory of institutional change that takes ideas as genuinely transformative. When even an economic crisis occurs with uncertain origins, economic ideas become even more remarkable, because they serve as simplifying blueprints that dictate agents what to do and what to anticipate in the future.

Thus, the third hypothesis of the thesis is as follows:

Uncertainty, ideas, and paradigm shift in policymaking shape the politics of institutional change in electricity generation from natural gas, in Turkey.

2.2.3.1. Ideational Forces and Material Interests in Double Movement: The Case of Energy Sector in Turkey

According to Polanyi, "the economy is, as a rule, embedded in a society. . . For a century the dynamics of modern society was governed by a 'double movement:' the market expanded continuously but this movement was met by a countermovement checking the expansion in definite directions" (Polanyi 1944, p. 130). The market expansion peaked around 1914, penetrating all components of market, from individuals to corporations. In the face of this quick spreading first movement, namely market expansion, a countermovement was in process. This was a reaction against harmful effects of the conventional production on society or re-division of

labor, which was created by the market**.** According to Robert Owen, if market economy was left to evolve with its own laws, it would create great and permanent evils (Polanyi 1944, p. 130). Polanyi in his book titled "Great Transformation" explains how economy has been transformed "to protect the society from market forces' in the case of Britain. He criticizes "invisible hand" concept of Adam Smith and elaborates the importance of what he conceptualized as "double movement."

Since production is an interacting process between human being and nature, a self-regulating mechanism of barter, exchange makes them subject to supply and demand, which means they under the name of labor, and land must be dealt with as commodities and goods produced for sale (Polanyi 1944, pp. 130-131). Polanyi disagrees with Karl Marx's understanding of class interests merely determined by material needs. In fact, he argues that interests of society as a whole influence social change. Therefore, the main component is social recognition, which refers to relation of a class to a society as a whole (Polanyi 1944, p. 153). The countermovement asserts that leaving human and land to the market would be the same with annihilating them. The main function of interventionism was the protection of natural and human resources in the market namely, the factors of production: labor and land (Polanyi 1944, p. 131). In this sense, the first movement was the principle of economic liberalism, aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely laissez-faire and free trade as its methods. The other one was the principle of social protection aiming at the conservation of man and nature as well as productive organization, relying on the varying support of those most immediately affected by the harmful action of the market. The society was protected from harmful effects of

the market by protective legislation, restrictive associations, and other instruments of intervention.

Thus, according to the Polanyi, two movements shaped the social history in the 19th century in the Great Britain. The former was the establishment of organizing principles of economic liberalism, which assumes human being and natural sources as a part of material source in economic structure. The latter was a counter movement, trying to protect society against the negative effects of aggressive capitalism on society. However, the rising challenges in double movement could not be satisfied in the early 20th century leading the rise of alternative ideologies such as fascism and socialism (Polanyi 1944, p. 132). As a result, one cannot avoid considering the social context of state-society relations evolving in the historical process and under contingent conditions for capitalist development, especially in late industrialized countries such as Turkey.

Buğra in her book titled “State and Business in Modern Turkey” indicates that according to liberal and rational scholars, the economy is a system in which societal determinants in state-business relationship lose their importance, because the main motive of the economic system is “the money-loving instincts of individuals” (Buğra 1994, p. 3). However, supporting Blyth, Buğra states that this sort of rationality is not reflected in the autobiographies of Turkish businesspeople. Buğra's research findings on state-business relation in the case of Turkey present that Turkish businesspeople had no expectations about the capitalist development without a state intervention. Rather than reduced state intervention, they clearly emphasized their need on tighter relations with government authorities. Her research results highlight that there are divergences between Turkish and Western value systems

and institutional bases of business life. Turkish businesspeople apparently could not internalize the basic values of capitalist development (Buğra 1994, pp. 3, 5).

Thus, state-business relation in Turkey are particularly important in understanding the politics of institutional change since 1990s in the light of re-occurring economic crisis and ongoing liberation process in the economy. Polanyi states that it is the relation of a class to the society as a whole, which maps out its part in the capitalist development. Business class is seen as one of the societal actors in the capitalist development. However, it is a well-known fact that in all societies where private enterprise has significant role, businesspeople have a privileged position relative to the state and the policy process (Buğra 1994, p. 15). The particular trajectory of institutional change in energy sector through six distinct eras, which are presented in the next chapter, is important for this thesis to question the role of ideational forces and material interests in understanding and explaining change in state-business relation particularly after the 2004 Energy Strategy Paper.

To sum up, within the framework of Kohli's typology for states' role in economic development, it can be argued that both cohesive-capitalist and multi-class fragmented state types are observed during different periods of Turkey's economic development. This means that Turkey should have been experiencing a number of institutional changes, associated with different political coalitions between state and business in economic development. Rational choice scholars argue that the main drive of institutional change is self-interests of the actors in play. However, the actors are restricted in exerting their self-interests in full, because predominantly path-dependent institutional restrictions affect their preferences. Thus, it seems to me that not only historical institutionalist arguments of institutional change, but

also the role of uncertainty, paradigm shift, and ideational forces in gradual institutional change should be considered as plausible factors in understanding and explaining the politics of institutional change in state-business relation in the energy sector, specifically in electricity generation from natural gas. Accordingly, one should understand the social context that constitutes ideational forces in state-business relation and how they have shaped the trajectory of institutional change in the energy sector. In the next chapter, I present the historical background in state-business relation and specifically those in electricity generation sector in Turkey.

2.3. Methodology

In general, case studies are used by social constructivists to test material and ideational variables. However, both rational choice theorists and realists rely upon case study methods to advance their theoretical arguments. Interpretive researchers also employ case studies to emphasize upon the power of discourse or to bold the use of narratives. Indeed, case studies frequently are used to find out social processes that make us understand and explain IPE/IR in detail. Furthermore, case studies provide not only in-depth description but also promote to our understanding of the world around us (Lamont 2015, pp. 125-126). According to George and Bennett, “the detailed examination of an aspect of a historical episode to develop or test historical explanations that may be generalizable to other events” (George & Bennett 2005, p. 5). That is to say, an intensive study of a single case may lead to understand and explain a large class of cases. Therefore, thanks to case studies, one can achieve the bigger universe of cases with an assumption.

Moreover, case studies are helpful for creating new hypotheses. Once one conducts interviews, s/he frequently faces with new primary data that s/he does not expect. This may result in proposing alternative causal explanations (Lamont 2015, pp. 129-130).

There are five common case selection criteria: most-similar case comparison, least-similar case comparison, combining cross case and over-time comparison, deviant cases, and least-likely. In most-similar case comparisons, one should find cases as similar as possible. However, one independent variable differs in their outcomes. So that, s/he can show the difference in independent variable that explains the difference in outcomes. In least-similar case comparisons, one should find cases that are different in all except one independent variable and one shared dependent variable. Therefore, s/he can display shared independent variable explains shared outcomes. In combining cross case and over-time comparisons, one should find a combination of cross case and compare them as "before and after," which allows for greater comparison across fewer cases. In deviant cases, one should find disconformatory cases. These cases do not fit in theoretical expectations. So that, s/he can generate new hypotheses and uncover new variables (Lamont 2015, pp. 132-135). In the thesis, however, I select least-likely case study, which is the most common strategy for case selection in case study research. Least-likely case study is useful when one faces with a theoretical claim that seems to have explanatory power (Lamont 2015, p. 132). In my thesis, since I question the three different views hypotheses (rational choice, historical institutionalism, and constructivism) in understanding and explaining the plausible factors of the politics of institutional change in state-business relation. The least-likely case study design helps me to

explore further the influence of ideational and material forces in electricity generation sector in Turkey, in which we might claim rationalist account for politics of institutional change given the importance of self-interested market actors (firms) and high volume of investment required. Also, I employed a single case study (relationship between the state and the electricity generation sector in Turkey), since it provides in-depth thick description of process for the given research question (George & Bennett 2005, p. 9).

2.3.1. Data collection and Sample

I conducted 15 interviews with senior officials to collect primary data from nine firms in electricity generation sector, four related public institutions (PIs), and two non-governmental organizations (NGOs).

In order to identify my sample of interviewees first I compiled a list of firms in the electricity production sector, which was my population of firms in the electricity production sector (See Appendix A). Then, I classified the companies according to energy resource for electricity generation – generating electricity from natural gas, hydro, and renewables. I also divided these companies into two groups: (i) those entered into the sector before 2001, and (ii) those entered after 2001 because the 2001 Electricity Market Law is an important benchmark for liberalization of the energy market and accompanied institutional changes in the electricity sector (see Table 2 in Appendix B). Such classification and grouping allows me to trace the process in politics of institutional change before and after the major structural changes introduced with this law in light of the previous distinct eras in the

historical trajectory of state-business relation (see Chapter 3). Moreover, I consider ten firms, which were identified as "roaring ten entrepreneurs during the Justice and Development Party rule" (Buğra 2014, p. 143). I included these firms specifically because all these companies operated in energy market in addition to their business activities in other sectors.

According to the above criteria for classification of firms, there are 15 firms, four official public institutions, and two NGOs in my sample list (see Table 2 below[2]). I was able to interview one senior manager in related divisions or departments from nine companies, one senior representative of two NGOs, and one senior officials of three public institutions that accounts for a total of 15 interviews for my primary data collection.

Within the framework of the theoretical background presented in this chapter and my competing hypothesis, I prepared interview questions to understand and explain the politics of institutional change in electricity sector in the historical context of state-business relation (see Appendix C).

[2] Interview dates can be seen in Table 4 in Appendix B.

Table 2_ Sample List of Interviews
*** The companies generating electricity from other resources than natural gas (hydro & renewables)**

The Firms that entered into the sector BEFORE 2001	The Firms that entered into the sector AFTER 2001	Four of Buğra's ten companies	Public Institutions (PIs)	Non-governmental Organizations (NGOs)
Firm 1*	Firm 7	Firm 12*	Ministry of Energy and Natural Resources (MENR)	Electricity Generators Association (EÜD)
Firm 2	Firm 8	Firm 13	Energy Market Regulatory Authority (EMRA)	Electricity Distributors Association (ELDER)
Firm 3	Firm 9	Firm 14	General Directorate of Renewable Energy (YEGEM)	Energy Traders Association (ETD)
Firm 4	Firm 10	Firm 15	Turkish Electricity Trade And Contracting Corporation (TETAŞ)	Petform
Firm 5	Firm 11		Turkish Electricity Transmission Corporation (TEİAŞ)	Union of Chambers of Turkish Engineers and Architects (TMMOB)
Firm 6			Turkish Electricity Distribution Corporation (TEDAŞ)	
			Energy Exchange Istanbul (EXIST)	

CHAPTER 3

HISTORICAL BACKGROUND IN STATE-BUSINESS RELATION AND INSTITUTIONAL CHANGE IN TURKEY'S ENERGY SECTOR

Understanding of the economy and the role of the state in economic development during the foundation of the Turkish Republic was not essentially different from those of Unionist predecessors in the late Ottoman Empire (Toprak 2003, p. 35). Their shared principles in economic development emphasized the creation of a national bourgeoisie that would be complementary to the leading role of state in economic development of the country. The 1913 Law, in this regard, was introduced to encourage industrialization. Besides, nationalist characteristics were prominent, such as the termination of the concessions given to foreign groups (the Capitulations[3]) and the nationalization of foreign enterprises. At the early stage of the Republic, economic development of the country was the main objective, which would shape the nation-building efforts. The principles, that would lead both economic development and nation building process, were adopted during the *İzmir* Economic Congress on February 17, 1923. More than one thousand delegates of merchants, industrialists, farmers, and workers came together (Buğra 1994, pp. 98-99). The delegates in this national economic congress declared their commitment to the establishment of a private enterprise economy. These principles demonstrate

[3] Capitulation is defined as the privileges given to foreign nations in disadvantage of the country's citizens. Starting from 16th century, the Ottoman Empire granted a series of commercial privileges to Western Powers. In 1569, 1581, 1597, 1614, 1673, 1718 and 1740 the capitulations were renovated and with 1740, capitulation the French privileges were highly extended and in Istanbul even foreign post offices were opened (Angell 1901). With the Sevres treaty, to Greece and Armenia some capitulations were given. Moreover, it was accepted that, all the foreign ships were equal to the Turkish ones. The capitulations were abolished with the Lausanne Treaty.

that the new Turkish state was capitalist in its form since it recognized private property rights (Koç 2000, p. 146).

The first electric power production in Turkey began with a 2kw-water mill in *Tarsus*, a province located in the South part of Turkey, in 1902. The power generation was from hydroelectric plant, which belonged to a Swiss and Italian corporate group (Ültanır 1998). In *İstanbul*, electricity was available for the first time in 1910. The Unionists targeted not only creation of a national bourgeoisie, but also the need for power generation in industrial and economic development prior to the Republic. The first license to generate electricity in *İstanbul* was given to a Hungarian company, namely "Ganz" (Ültanır 1998). Therefore, Turkey's electricity production had already begun under the control of foreign enterprises. However, the economic ideas of the Unionists favored the termination of the concessions given to foreign interests and the nationalization of foreign enterprises. The first period in electricity market of Turkey began through this tension, between the foreign enterprises and the economic ideas of the Unionists. One can analyze the changes and developments in electricity market according to five distinct periods in the historical trajectory of state-business relation in Turkey.

3.1. 1st Period (1923-1930)

In order to promote national economic development, a number of principles including tariff protection of domestic industry and tariff exemptions for imported inputs were adopted during the *İzmir* National Economic Congress gathered in February 1923. However, the trade regime of the Ottoman era had to continue with

no changes in tariff levels until the end of the decade because of the trade-related provisions of the Lausanne Treaty signed in July 1923[4].

Hence, in the 1920s, one of the most important policy tool for trade and for state revenues – tariff protection – could not be facilitated. The government was in need of finding new sources of public revenue. The 1927 Law about industry was implemented in this period. The law was a new version of the 1913 Law about industry. The 1927 Law was providing several tax exemptions, free allocation of land and buildings for industrial establishments, credit facilities, and provisions for domestic purchases. Meanwhile, state monopolies were the major source of public revenue in these years. But the inherited foreign debt from the Ottoman Empire was producing a significant pressure on the budget. Under these circumstances, the expiration of the limiting clauses of the Lausanne Treaty in 1929, the date determined in the treaty, were vital for policymaking. After 1929, the government was able to relieve the pressure on the public budget and balance of payments (Buğra 1994, pp. 99-100).

Throughout the 1923-1929 period, the government followed liberal economic policies that would support private enterprise development. However, financial resources of private enterprises and private capital accumulation were not enough to build capital-intensive sectors in which state monopolies were dominant. Due to the lack of know-how and specific provisions of Lausanne about foreign enterprises, the early Republican government maintained the existing model, which allowed both foreign and domestic companies in electricity generation. The state granted

[4] According to Economic Clauses-Article 64, foreign enterprises were under the protection of allied powers: "physical persons, companies and associations of the Contracting Powers other than those of Turkey, or of a State or territory under the protection of one of the said [allied] Powers" (Lausanne Treaty, 1923).

privileges to German MAN and AEG, Italian Marelli, Hungarian Ganz, some French and Belgium corporations until 1930 (Ültanır 1998). In this period, domestic private capital also entered into the sector – *Kayseri* and its vicinity Turkish Electricity Corporation was founded with a concession agreement that was signed on October 11, 1926.

The major goal in energy policy was to meet energy need from domestic resources, specifically from hard coal. Nevertheless, electric power plants built by foreign capital used diesel fuel because of its convenience to get loans, to transport, and to set into operation. The electrification in Turkey was provided with small local plants and their distribution network. Gross power across the country became 78 MW in 1930 – that was 33 MW in 1923 (Ültanır 1998).

3.2. 2nd Period (1930-1950)

The 1929 Great Depression created an economic recession not only in the US and Europe, but also in Turkey. A certain change in economic policy was expected because of the expiration of specific clauses about trade in the Lausanne Treaty. In fact, the end of the decade was marked by two developments that radically modified the policy environment and state-business relation. One of these developments was the world economic crisis. What is maybe more important than the direct effect of the Great Depression on Turkey's economy was rising doubts about neoclassical principles of liberal market economy such as the ability of self-regulating markets, and the optimal allocation of resources (Buğra 1994, pp. 98-100). Moreover, the Second World War erupted in 1939, and took six years until 1945. In this politically and economically challenging era, Turkey implemented the

1942 Wealth Levy that caused a crisis of confidence between the state and the business. During the 1930s and 40s, the government followed an economic policy that the economic activity would not be totally left to the market system. State-business relation have been developing in such an environment. No one was questioning the necessity of a substantial degree of state interventionism (Buğra 1994, p. 100).

Accordingly, the central role of state in economy was also observed in the electricity market. The authority of power plant installation and operation as well as electric power generation and distribution was given to the municipalities, with a municipal law in 1933. In the same year, the Province Bank (*İller Bankası*) was established to provide financial support for investments, including all sorts of investments to supply electricity. All foreign-capital and privileged partnerships in power plant were nationalized between the years of 1938 and 1944, while *Kayseri* and its vicinity Turkish Electricity Corporation remained in the ownership of domestic business (Ültanır 1998).

Thus, this era indicates that although statist policies were in place, the state was not completely against the private capital. In order to develop energy resources of the country, the following public administrations were established in 1935: Mineral Research and Exploration Institute (to explore coal and oil resources); *Etibank* (to set up and operate mining, and to generate energy); Electrical Power Resources Survey and Development Administration (to search for water resources and electric generation possibilities). The first 5-year Industry Plan (1933-1937) was brought into force, but it could not be implemented until 1963. Gross power across the country became 407 MW in this term (Ültanır 1998). At the end of the period, Turkey

shifted to the multi-party democracy. Democrat Party (DP) won the elections in 1950, being successor to the Republican People's Party's (RPP) government, which was in power for 24 years. Subsequent to change in the government, the economic policy changed rapidly.

3.3. 3rd Period (1950-1960)

In terms of state-business relation, the 1950s began with a friendly atmosphere. In July 1950, the newly established government's Minister of Commerce and Economy met with a delegation of leading businesspersons in order to show that all major economic decisions would be taken in collaboration with the business community. The key conclusion of the meeting emphasized that any economic law hindering the development of private enterprise could be modified, changed, or abolished. This was beyond the expectations of the business people in Turkey. The government seemed quite decisive about the encouragement of the private sector, but at the same time, there should have been a strict budget policy and monetary restraint to provide economic stability. However, the government did not put this conditionality into practice. Even though the successive DP governments seemed committed to liberal market policy, their efforts did not reflect this. They increased state intervention into economy to consolidate their power. Some scholars called this "the paradox of Turkish liberalism" (Buğra 1994, p. 120).

In this semi-liberal economic environment, privileged foreign corporations were allowed to get into the electricity market, while domestic private corporations were also encouraged to operate in this market. World Bank (WB) suggested privileged partnerships in electricity sector. Nevertheless, the new corporations, which were

founded for electric generation, had no foreign-capital involvement throughout this term (Ültanır, 1998). These new corporations were Northwest Anatolia Electrification Inc. (1952), *Çukurova* Electric Inc. (ÇEAŞ, 1953), Aegean Electric Inc. (1955), and *Kepez* Electric Inc. (1956).[5]

In 1953, significant decisions were taken in the First Energy Consultative Congress. The most substantial ones were the following:

1) Leading decision on building more powerful coal-fired power plants and hydroelectric plants, instead of small local diesel-fired power plants.
2) Leading decision on providing electrification with nationwide interconnected regional power plants, instead of unconnected citywide power plants.
3) Leading decision on establishing Turkish Electricity Administration (TEK), which would gather all the authority on electrification.
4) In 1954, Turkish Petroleum Inc. was founded through the new Oil Law. Mineral Research and Exploration Institute transferred its petroleum operation to this state-owned enterprise. The Mining Law, the law no 6309, in the same year, was brought into force. These new legislations were based on liberal market principles that treated private and state owned economic enterprises (SEEs) in energy sector equally in order to develop energy generation. For the same purpose, the state continued the establishment of institutions and organizations, such as Directorate General for State Hydraulic Works (DSİ), and Turkish Coal Enterprise (TKİ) (Kankal, 2014).

Zonguldak Çatalağzı Fossil Fuel Plant was also established and connected to *İstanbul* with a 154kV-energy transmission line in this period, which was the

[5] Northwest Anatolia Electrification Inc. and Aegean Electric Inc. was out of market in 1971. The state seized *ÇEAŞ* and *Kepez* Electric Inc. in 2003.

beginning of interconnected system. *Çukurova* and *Kepez* Hydroelectric Power Plants; *Seyhan, Sarıyar, Hirfanlı* dams and their hydroelectric power plants, and *Tunçbilek* Fossil Fuel Plant were some of power plants that were established in this period (Kankal, 2014). Gross power across the country became 1272 MW in this term.

Despite the new regulations providing an equal level of play for both private enterprises and SEEs in the energy sector, the state's significant role was not diminished. The share of public investments in electricity sector augmented from 38 to 50 % towards the end of this term, and the state increased the level of its control and surveillance on private enterprises. In 1958, the country experienced a severe economic crisis; and large number of small and medium sized enterprises (SMEs) went bankrupt. In response to the deepening political and economic crisis, the government accepted to implement International Monetary Fund (IMF) stabilization program and signed the first stand-by agreement of Turkey. However, the agreement was never implemented and ongoing political crisis ended with the 1960 military coup.

3.4. 4th Period (1960-1980)

Throughout the DP led government years, the government changed direction in economic policy frequently, resulting from the absence of a basic economic philosophy (Buğra 1994, p. 129). In May 1960, Turkish National Armed Forces took over the authority from the DP. In the next two decades between 1960 and 1980, there were three military interventions, two failed military coup attempts, two reform cabinets, eight very short-lived coalition governments, several ministerial

crisis, and escalating terror and violence, especially in the second half of the 1970s. Furthermore, during these two decades, Turkish economy experienced an economic restructuring through the adaptation of import-substituting-industrialization (ISI) strategy. ISI confronted serious economic shortcomings, namely, balance of payments deficits, severe foreign exchange shortages, low growth rates, inflation unemployment, overcapitalization, and an inefficient industrial structure. But it was not enough to cope with all these problems (Barkey 1990, pp. 30-31). ISI is seen as nationally planned economic development strategy through which the state civil and military expenditures were used to maintain capital accumulation. So, the strategic economic interests of national capitalists were secured. However, ISI was not successful in a lot of countries across the world, except a couple of Latin American states (Clarke 1991, pp. 3-5). *In* Turkey, the end of Import Substitution Industrialization (ISI) years, private firms had a significant presence in industrial sectors, and the big private enterprises had achieved a highly sophisticated organizational structure (Buğra 1994, p. 130).

The social position of big business was being formed in this era. There were two developments. First, the cleavage between big business and the rest of the business community, consisting of SMEs, was becoming increasingly clear. Big businesspeople seemed to give increasing importance to the long-term economic strategy, as opposed to short-run developments affecting their immediate interests. They were also increasingly voicing their demands to influence in the formation of public policy. Second, big businesspeople were separating themselves from firms and other business groups in the overall business community, starting with the early 1960s. Indeed, prominent businesspeople began individual visits to government

authorities to articulate their demands. They did this by passing the Chambers. According to Buğra, “the foundation of the Turkish Industrialists' and Business people’s Association (TÜSİAD) in 1971 was largely the result of these developments whereby big businesspeople have dissociated themselves from the rest of the community in an attempt to assume a quasi-public function in determining the economic and social orientation of the country” (Buğra 1994, p. 132).

One of the most substantial features of this term was the shift to a planned economic development model. The State Planning Institution was established in September 1960. The state led economic development process by 5-year development plans in a mixed economy. Thus, the state for the first time assessed the energy needs and developed models for predicting future energy demand in Turkey. Ministry of Energy and Natural Resources (MENR) and TEK was established in 1963 & 1970, respectively under the scope of first and second 5-year development plan. The dominant share of SEEs in electricity production in the electricity market continued[6]. TEK became the privileged monopoly to generate, transmit, distribute, and market electricity (Ültanır 1998).

In the aftermath of the ISI strategy and the TEK Law, the role of state became more assertive in shaping the investments in the energy sector, including electricity generation and distribution. Nevertheless, the privileged partnerships that were established earlier years continued their existence (Ültanır, 1998). Moreover, 1973 OPEC Oil Crisis and 1979 Oil Shock deeply affected Turkish economy. The excessive increase in Turkey’s external debt burden demonstrated the vulnerability of the economy in balancing its chronic trade deficit. In an attempt to increase domestic

[6] The TEK law, Law no. 1312_11.09.1982

energy supply resources and to decrease share of imported fossil fuels in power generation, the country shifted to low-cost open cast mining to generate electricity. In 1973, the state built *Afşin Elbistan* Fossil Fuel Power Plant, which had 4x344 MW power generation capacity. Similarly, the state increased its investment also in hydro-power based electricity generation capacity. For example, the first four-turbine of 1330-MW *Keban* Dam on Euphrates river and its hydroelectric power plant was established[7] (Kankal, 2014).

The state-led planned economic development policy was abolished by the economic stability program in 1980, which is known as "24 January Decisions." After two years of military rule and interim government between 1980 and 1983, the Motherland Party won the elections in 1983; and liberalization of economy has started under *Turgut Özal* led government.

3.5. 5th Period (1980-2001)

Turkey's economic integration process with international markets accelerated through unfolding institutional changes in the aftermath of "24 January Decisions" and the 1980 Military Coup (Buğra 2014, p. 85). From 1980 onwards, the governments started to follow liberal policies in public investments, including electricity sector (Yılmaz & Uslu 2007, p. 259). Different governments initiated some legal arrangements to attract the private investors to the economy (Özkıvrak 2005, p. 1345). Despite Turkey's achieved economic growth rates, trade deficits, high external debts and balance of payments crises became chronic. In order to cope

[7] The second four-turbine was opened in 1981.

with these problems, the government commenced a comprehensive stabilization and liberalization program in January 1980 (Öniş 1998, p. 498).

The program was not merely a short-term stabilization but also a new economic development model. There were four main goals of the 1980 program: (i) reducing the state role in the economy and allowing operation of the free-market rules; (ii) opening the economy to international competition, i.e., trade and financial liberalization and then reducing the balance of payments deficits by encouraging exports and foreign direct investments[8]; (iii) realizing economic growth with export-led development model; and (iv) decreasing inflation by following tight monetary and fiscal policies (Kepenek & Yentürk 2011; Buğra 2014).

The program proposed that export-led model could bring about economic growth, but there were no measures to improve industrial cost structure and to generate domestic production increases to export. Rather, the program suggested that tight monetary and fiscal policies could reduce domestic demand and therefore could achieve supply surplus to export. In addition, several measures like tax exemptions and credit with low interest were introduced in order to increase exports. Therefore, the expectation was reduction in the balance of payments deficits by increasing exports, which would also boost economic growth. In order to succeed in, the government took the following measures starting from January 24, 1980 decision: cutbacks on public expenditures, improving tax system, tight control of money supply and credit, removing most subsidies and price controls on state enterprises, limiting wage increases, removing restrictions on interest rates,

[8] The trade liberalization was realized in the beginning of 1980s and then the capital account was liberalized in 1989.

devaluation of the Turkish lira and flexible exchange rates[9], privatization of state enterprises (Özkıvrak 2005, p. 1345).

The 1980 program was designed in line with monetary approach; and mostly focused on the demand-side measures. The program did not take effective measures to improve productivity of public expenditures and efficiency of tax system. Hence, there was no sufficient decrease in public expenditures and increase in tax revenues. Budget deficits, external debts, inflation and unemployment reached high level, while economic growth rates decreased significantly in late 1980s. Thus, Turkey encountered a series of financial and economic crises in 1994, 1999, 2000 and 2001 successively (Öniş 1998, p. 503; Kepenek & Yentürk 2011).

In the 1980s, public sector investments decreased, and the share of imported resources in meeting energy demand increased. The hard coal production was taken from TEK's charge. In 1983, new ''Petroleum Law'' was enacted in order to encourage the petroleum exploration. In 1984, the monopoly of Turkish Electricity Administration came to an end by a law and the privatization in electricity sector as well as in other sectors started with another law in 1986 (Özkıvrak 2005, p. 1348). Natural gas became prominent in Turkey's energy mix as well as in the world demand for energy. In fact, by 2008 the natural gas share accounted for 49.7 % of the electricity generation, which was the highest rate ever observed in Turkey (see Figure 1).

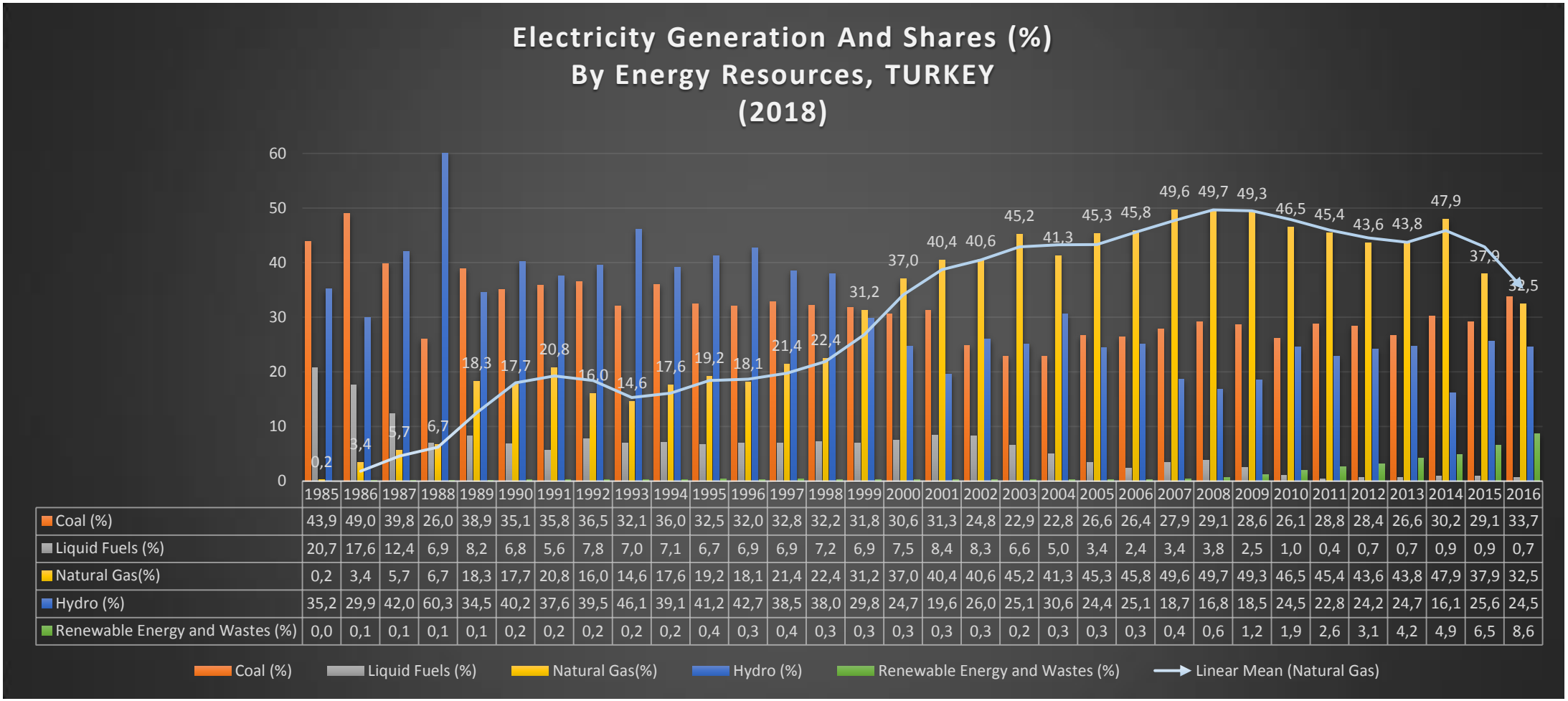
Meanwhile, energy generation led by public investments continued in 1980s. Until 1993, TEK dominated all generation, transmission and distribution part of Turkish electricity sector before unbundled two separate state institutions in accordance

[9] In 1981, managed floating exchange rate system replaced with fixed system and in 1989, the government liberalized the capital account and made domestic currency convertible.

with deregulation and liberalization policies. In 1993, upon the decision of Council of Ministers Turkish National Assembly[10] enacted a law proposing TEK privatization that divided TEK into two public companies namely Turkish Electricity Generation and Transmission Company (TEDAŞ) and Turkish Electricity Distribution Company (TEAŞ). In the same year, two different laws were also enacted to consolidate the liberation and privatization of the electricity market. In 1997, the Build Operate (BO) model to facilitate further involvement of private sector in electricity generation has introduced by a new law. However, the Constitutional Court and *Danıştay* took several decisions, in 1994 and 1995, which made privatization in the energy sector very arduous (Erdoğdu 2007, p. 985; Özkıvrak 2005 p. 1345).

Under the scope of new economic model, existing public enterprises and power plants were transferred to private sector by employing distinct methods, such as ‘‘Transfer of Operation Rights (TOOR),’’ “Build Operate Transfer (BOT),” “Build Operate (BO),” and “Sale of Property’’ (Çetin 2010, p. 302; Özkıvrak 2005, p. 1346). However, although there were typical TOOR, BOT, and BO contracts between the private initiatives and TEAŞ at least for 15-39 years, these contracts failed to guarantee a structure for the aimed competition in the market (Atilyas & Dutz 2005, p. 191). Indeed, even though the newly established private sector in energy market eventually gained power, state-owned enterprises remained to have a substantial portion of assets in electric power sector in Turkey. Because of the increasing energy need and consumption rates, the government had to bring in foreign investments with BO and BOT models (Yılmaz & Uslu 2007, p. 260).

[10] The Cabinet Decree No. 93/4789_15.09.1993



	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Coal (%)	43,9	49,0	39,8	26,0	38,9	35,1	35,8	36,5	32,1	36,0	32,5	32,0	32,8	32,2	31,8	30,6	31,3	24,8	22,9	22,8	26,6	26,4	27,9	29,1	28,6	26,1	28,8	28,4	26,6	30,2	29,1	33,7
Liquid Fuels (%)	20,7	17,6	12,4	6,9	8,2	6,8	5,6	7,8	7,0	7,1	6,7	6,9	6,9	7,2	6,9	7,5	8,4	8,3	6,6	5,0	3,4	2,4	3,4	3,8	2,5	1,0	0,4	0,7	0,7	0,9	0,9	0,7
Natural Gas(%)	0,2	3,4	5,7	6,7	18,3	17,7	20,8	16,0	14,6	17,6	19,2	18,1	21,4	22,4	31,2	37,0	40,4	40,6	45,2	41,3	45,3	45,8	49,6	49,7	49,3	46,5	45,4	43,6	43,8	47,9	37,9	32,5
Hydro (%)	35,2	29,9	42,0	60,3	34,5	40,2	37,6	39,5	46,1	39,1	41,2	42,7	38,5	38,0	29,8	24,7	19,6	26,0	25,1	30,6	24,4	25,1	18,7	16,8	18,5	24,5	22,8	24,2	24,7	16,1	25,6	24,5
Renewable Energy and Wastes (%)	0,0	0,1	0,1	0,1	0,1	0,2	0,2	0,2	0,2	0,2	0,4	0,3	0,4	0,3	0,3	0,3	0,3	0,3	0,2	0,3	0,3	0,3	0,4	0,6	1,2	1,9	2,6	3,1	4,2	4,9	6,5	8,6

FIGURE 1: Electricity Generation and Shares by Energy Resources (2018), Turkey.
Source: Turkish Statistical Institute (TETC, Electricity Generation - Transmission Statistics of Turkey)

3.6. The puzzle for my research question

In light of the developments in the fifth era (1980-2001), the institutional changes after the 2001 economic crisis account for a puzzle that induced my research further. Although one of the main reasons of privatization in electricity sector, indicated in the 2004 Energy Strategy Paper (ESP) is security of supply, Turkey's interdependence between natural gas and electricity markets has substantially increased. In 2004, the share of natural gas in generating electricity was 41.3 per cent. However, it peaked with 49.7 per cent in 2008 and slightly decreased to 47.9 per cent in 2014. Even today, the share of natural gas in generating electricity is more than 35 per cent (see Figure 1), while it can exceed 45 per cent during high demand times in winter months.

According to Çetin and Oğuz, such a high dependency on natural gas for electricity generation may trigger a substantial electricity crisis similar to the one happened in California in late 1990s[11] (Çetin & Oğuz 2007, p. 3865). Californian electricity generation, transmission and distribution operations were organized as three private monopolies. These companies'[12] prices, costs, and service obligations were mainly regulated by the California Public Utilities Commission (CPUC), which is an independent state regulatory agency. Since early 1990s, energy prices were 50 percent higher in California than anywhere else in the country. That is why, in order to decrease the prices, the sectors in need of high rate of electricity proposed reforms and transition arrangement in electricity generation, transmission, and distribution sectors in California. After several years of discussions, the CPUC

[11] In 1999, almost half of electricity generation had been provided from natural gas in California and a sharp increase in natural gas prices resulted in higher electricity prices.

[12] Pasific Gas and Electricity (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric Company (SDG&E)

enacted AB 1890, a restructuring law. The law basically opened the electricity industry to competition, and deregulated the sector. At the very beginning of the deregulation in California, the system worked well. However, after for a while, first, in order to keep the electricity prices high, the sector companies became reluctant to build new power plants in spite of the high demand projections. Second, a severe drought cut the amount of hydropower generation. Third, the power suppliers outside were not able to supply sufficient power to the state. Last, the almost 60 per cent electricity generation of California was dependent on natural gas. Because of all the reasons above, natural gas and therefore electricity market prices skyrocketed (Joskow 2001, pp. 365-366; 372-375).

While there are significant differences between Turkey and California in terms of political structure of the market, the dependence on a major energy supply source, which has the highest share in electricity production, creates an 'unnecessary' risk and uncertainty of supply. Moreover, the Turkish electricity market is exposed to the irregularity in natural gas supply. As observed in early 2006, an interruption in gas supply is a real possibility. In such a case, the government would cut the gas of industrial users, co-generators and power plants. In the case of a more serious shortage, an electricity crisis is inevitable (Çetin & Oğuz 2007, p. 3865). Therefore, such a dependency exposes considerable risk and uncertainty of supply for Turkey's energy security (Ipek 2017, p. 406). Moreover, Turkey's relatively high dependence on imported natural gas supply could result in cuts for unforeseen reasons; and the electricity market may encounter possible crisis similar to those experienced in 2006 and 2007 (Çetin & Oğuz 2007, p. 3856). Thus, despite the new institutions introduced into the energy market after the 2001 economic crisis, persistently high

share of natural gas in electricity generation is puzzling and requires further investigation of state-business relation in the context of politics of institutional change in electricity market.

During the period 1980–2017, electricity production reached 73,665 MW and installed capacity reached 78.246 MW. Natural gas consumption has been the fastest growing primary energy source in Turkey. The country's natural gas consumption has started with 0.5 bcm (billion cubic meters) in 1987 and rapidly reached 16 bcm, an increase of 310 per cent between 1987 and 2001. Gas consumption is expected to reach 82 bcm in 2020. Turkey has several projects about natural gas usage, and its transport to Europe (Kılıç 2006, p. 1932).

The distinct eras between 1923 and 2001 presented in this chapter highlight that energy policies of Turkey have changed many times and showed contradictions from time to time. In the early years hard coal as a national resource had a major role in energy production, then petroleum, an imported resource, came to the fore. Petroleum crises experienced between 1973 and 1979 brought about the perception of the importance of national energy sources. Therefore, lignite (the largest reserve in Turkey's domestic fossil energy resources) became a primary resource. After 1990s, Turkey relied on imported energy resources again and since then natural gas has had increasing proportion in energy production.

Natural gas (NG) is an extremely important source of energy to mitigate climate change problems as it reduces greenhouse gas (GHG) emissions, thus, has a great advantage over the use of other fossil fuels. In the 1970s and 1980s, the choices for most electricity generators were large coal or nuclear power plants. Due to environmental, economical, and technological changes, NG has become the fuel of

choice for electricity generation. While coal remains the dominant fuel for power plants around the world, in recent years, natural gas use has been increasing in power generation in many countries despite fluctuating costs.

NG fired electricity generation is expected to increase dramatically over the next 25 years. Gas-fired generation was 38 per cent in 2015, but it is expected that this value will be slightly over 40 per cent in 2035 (NGSA 2018). Global electricity generation also consists of coal (7 %), nuclear (17 %), and renewable and hydro (38 %) as of 2015 (see Figure 2). The data show that NG has a key role in balancing among nuclear, coal and renewable energy. In other words, NG is considered as important in the transition of energy sector from fossil dependency and high CO2 emission to cleaner electricity production.

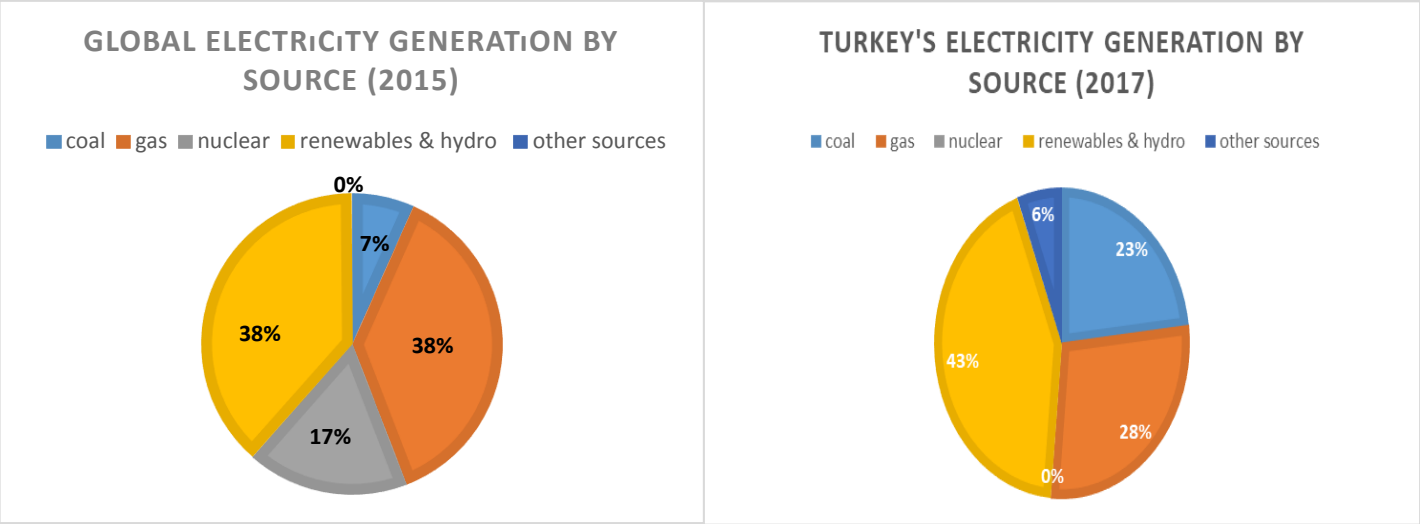


FIGURE 2: Global Electricity Generation and Shares by Energy Resources (2015) & Turkey's Electricity Generation and Shares by Energy Resources (2017)
Source: International Energy Agency, 2015 & MENR Electricity, 2017

Roughly 41 % of the world's proved natural gas reserves are located in the Middle East and Eurasia. Russia, Iran, and Qatar have about 48 % of the world's NG reserves. Russia is the largest exporter of NG in the world and Qatar has become the world's leading LNG exporter in 2017 (see Table 3 below). Thus, diversification of gas resources for gas importing countries, particularly for those who have relatively higher share of gas in electricity production, remains to be a challenge. Turkey is especially dependent on one country, Russia, for importing natural gas, which has caused Turkey to be at risk in terms of energy and national security (Şevik 2015, pp. 573-575; Ipek 2017 p. 175). In short, such a vital sector for not only development but also national security requires further investigation of state-business relation and politics of institutional change in electricity production.

Table 3: Producers, net exporters, and net importers of natural gas, 2016
Source: IEA Key World Energy Statistics 2017 (2016 Provisional Data_Net exports and net imports include pipeline gas and LNG)

Producers	bcm	% of world total
United States	749	20.7
Russian Federation	644	17.8
Islamic Rep. of Iran	190	5.3
Canada	174	4.8
Qatar	165	4.6
People's Rep. of China	137	3.8
Norway	121	3.3
Algeria	92	2.5
Saudi Arabia	90	2.5
Australia	88	2.4
Rest of the world	1 163	32.3
World	**3 613**	**100.0**

Net exporters	bcm
Russian Federation	205
Qatar	117
Norway	115
Canada	61
Algeria	54
Turkmenistan	53
Australia	41
Indonesia	34
Malaysia	24
Nigeria	23
Others	142
Total	**869**

Net importers	bcm
Japan	116
Germany	79
People's Rep. of China	69
Italy	65
Turkey	46
Korea	44
Mexico	43
France	43
United Kingdom	38
Spain	28
Others	286
Total	**857**

CHAPTER 4

THE ROLE OF UNCERTAINTY, IDEAS, AND PARADIGM SHIFT IN POLITICS OF INSTITUTIONAL CHANGE IN ELECTRICITY PRODUCTION (2001-2017)

4.1. Major Institutional Changes and Structural Constraints in Domestic Electricity Market:

4.1.1. The 2001 Law on Electricity Market (The Law No. 4628) and The 2004 Strategy Paper (Reform in Electricity Sector and Privatization Strategy Paper)

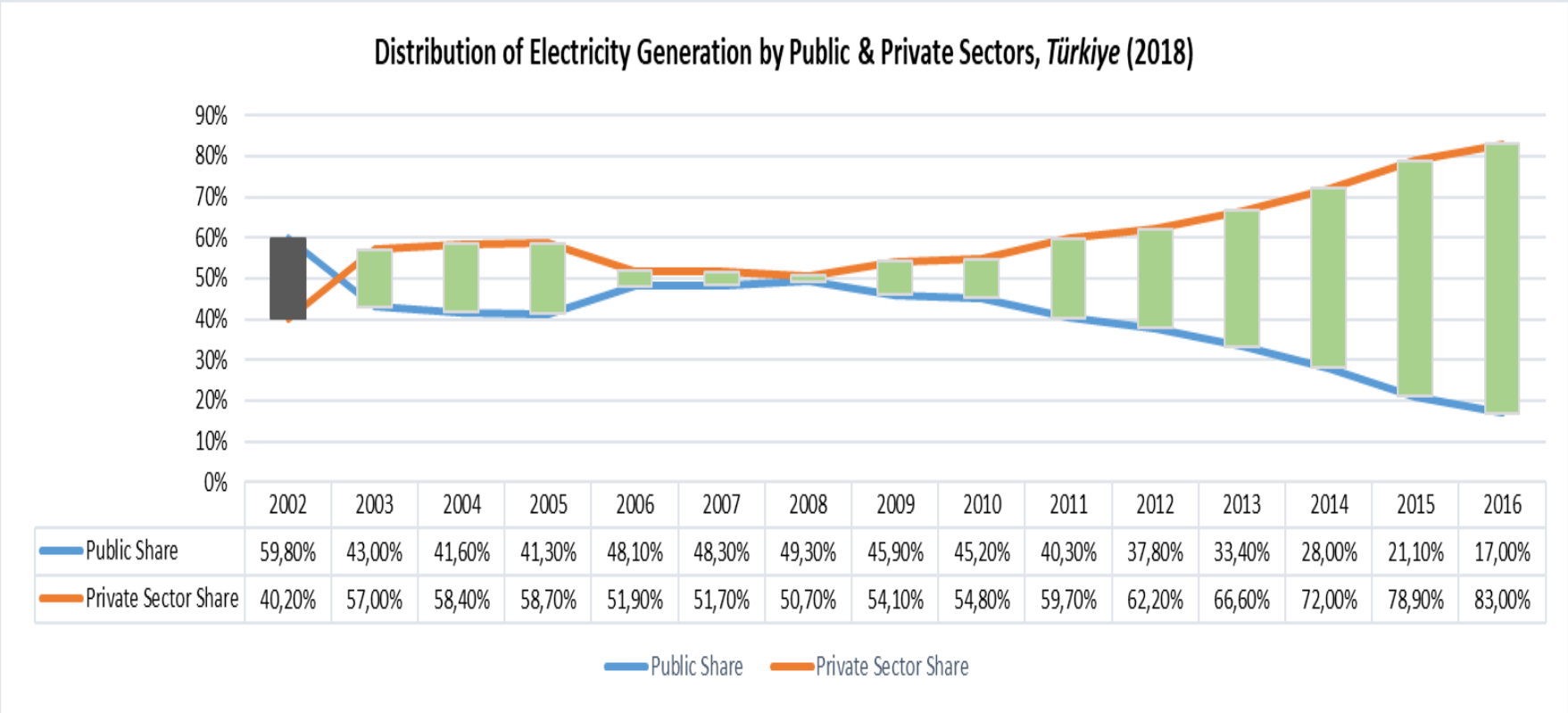
In 2001, one of the most significant efforts to liberalize Turkish electricity market was made when Electricity Market Law (EML) came into force[13]. The law divided the Turkish Electricity Generation Transmission Company's (TEAŞ) into three parts as EÜAŞ (generation), TETAŞ (wholesale trading and contracting), and TEİAŞ (transmission and market operator). The government also established a new "independent" energy market regulating authority (EMRA) in 2001 (TOG 2001).

Until the early 2000s, Turkish privatization process was relatively unsuccessful. However, privatization process speeded up following the related legislative changes that the privatization revenues skyrocketed after 2004 (Buğra 2014, p. 130). In March 2004, the Higher Planning Council published the Strategy Paper concerning Electricity Market Reform and Privatization.[14] The paper concentrated on the significance of domestic capital investments in the electricity sector; and gave authority over investment issues to MENR and the State Planning Organization

[13] The Law No. 4628_ law on Electricity Market_20.02.2001
[14] The Higher Planning Council Decision No. 2004/3_17.3.2004

(Higher Planning Council 2004). The electricity market was divided into 21 regions where private companies would operate with increasing share, and the government kept TEİAŞ as a state enterprise. The Higher Planning Council's 2004 Strategy Paper, therefore, was one of the most significant decisions for electricity sector in Turkey. The title of the paper is "Reform in Electricity Sector and Privatization Strategy Paper." As the title suggested, the Higher Planning Council's decision set a reformist framework for electricity sector and introduced a new privatization strategy. According to the paper, the main purpose was to provide enough, qualified, sustained, and affordable electricity to the consumer. In order to achieve such policy goals Turkey would continue liberalization of the energy sector under the scope of Turkey's accession process to the EU membership.

After the release of the 2004 Strategy Paper, the private sector ownership swiftly replaced the public assets in electricity generation (See Figure 3 below). Thus, state electricity generation and distribution assets were privatized in the next few years. The main expected benefits of the reform were (i) decreasing electricity generation and distribution costs with using the related assets efficiently, (ii) providing security of supply, (iii) preventing technical losses and electricity leakages in distribution network, (iv) laying renewal and development burden only on private sector, and (v) gaining favor for the consumer, with providing a fair competition between the companies in the sector (Higher Planning Council 2004).



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public Share	59,80%	43,00%	41,60%	41,30%	48,10%	48,30%	49,30%	45,90%	45,20%	40,30%	37,80%	33,40%	28,00%	21,10%	17,00%
Private Sector Share	40,20%	57,00%	58,40%	58,70%	51,90%	51,70%	50,70%	54,10%	54,80%	59,70%	62,20%	66,60%	72,00%	78,90%	83,00%

FIGURE 3: Distribution of Electricity Generation by Public & Private Sectors (2018), Turkey
Source: MENR (Document for Energy & Natural Resources Look of World & Turkey_Department of Strategy Development)

Accordingly, the privatization of electricity generation assets would be realized after the privatization of most of the distribution assets and starting up the Market Management System (MMS). Also, all public institutions including the State Hydraulic Works (DSİ) were to transfer their hydraulic power plants to Electricity Generation Company (EÜAŞ), the state-owned economic enterprise in electricity generation. A free market was to be created, which would depend on bilateral agreements between vendors and consumers and would be integrated by a stabilization and reconciliation mechanism[15] (The 2004 Strategy Paper). Hence, the paper was a cornerstone for restructuring Turkish electricity sector. It was a complementary act for the privatization and liberalization process that started with BOT, BO, TOOR contracts in the mid-1990s. The paper was explaining the shift, step by step, towards creation of a liberal market structure in electricity generation and distribution.

In 2005, Turkey's number one industrial firm and its largest petroleum refining company, TÜPRAŞ, was privatized. In 2008 and 2013, the privatization of electricity distribution networks and electricity production began, respectively. The state's share in power generation capacity decreased from almost 47 to 37 per cent from 2004 to 2017, while the private sector share in electricity production increased from nearly 58 to 83 per cent in the same period (See Figure 3). Moreover, all the 21 distribution companies in the electricity sector were privatized in 2013, which increased the private sector share in electricity distribution to 100 per cent (Çetin 2010, pp. 304-305, Buğra 2014, p. 132).

[15] In order to reach this goal, The Market Financial Settlement Center (PMUM) was established. TOG No. 25632_03.11.2004

4.1.2. Restructuring of Turkey's Economy: The Conditionality of IMF Loans and Turkey's Accession Process to the EU

Turkey was struggling with successive financial and economic crises in 1990s and early 2000s (1994, 1999, 2000 and 2001 crises). One of the key solutions considered was to reduce state's direct intervention and to use state apparatus merely as a regulatory power under the influence of emerging neo-liberal ideas in international and domestic policy circles (Onis & Senses 2009, p. 8). Therefore, the bureaucrats and technocrats of ministries in Turkey were working on privatization and liberalization processes. Electricity sector was no exception. Thus, the 2001 crisis merely accelerated the process in which bureaucratic agencies had been discussing liberalization in energy sector already by then. In 2001, Turkey had to apply to lender of last resort, the IMF, to get a loan in order to balance its payments. IMF accepted the Turkish government's demand and lent a loan in the amount of 23.7 billion dollars in return for some policy changes, which are known as conditionality of structural adjustment programs of the IMF (Ersel 2009, p. 37). The conditionalities of the loan program included privatization and liberalization in electricity sector.

Turkey also became a member of Custom Union in December 1995 and the European Union (EU) accepted Turkish official candidacy in Helsinki summit in 1999. Therefore, Turkey already accepted the EU membership accession process. According to the Energy Chapter[16] included in Turkey's negotiations to adopt the EU acquis for accession, Turkey had to establish the internal energy market by

[16] Chapter 15, "EU energy policy objectives include the improvement of competitiveness, security of energy supplies and the protection of the environment. The energy acquis consists of rules and policies, notably regarding competition and state aids (including in the coal sector), the internal energy market (opening up of the electricity and gas markets, promotion of renewable energy sources), energy efficiency, nuclear energy and nuclear safety and radiation protection."

"opening up of the electricity and gas markets, promotion of renewable energy sources" (Chapters of the aquis). Turkish government decided to build an internal electricity market within the framework of Turkey's adoption to the EU's acquis.

4.1.3. Turkey's Increasing Energy Demand and Energy Imports

In the meantime, Turkey's oil and gas imports were increasing. The new gas legislation built up the legal grounds for privatization, and split up vertically integrated BOTAŞ, the state controlled gas pipeline and gas distribution company. BOTAŞ's monopoly has not limited private companies from distributing gas in the cities, but the companies had to buy their gas from BOTAŞ. The authority on gas imports became substantially crucial for Turkey's energy security because of risks in electricity disruption. The share of gas supplies in electricity production was considerably high, which was increasing steadily and reaching 47, 9 per cent in 2014 (see Figure 1). In 2017, according to the MENR official website, the share of natural gas in electricity generation mix was more than 25 per cent while coal 23, renewables & hydro 43, and other resources 6 per cent (see Figure 3).

4.2. Politics of Institutional Change in Electricity Market in the Context of State-Business Relation:

4.2.1 Self Interests of Actors and Gradual Change in Politics of Institutional Change

The self-interests of private sector in electricity generation and new enthusiastic entrepreneurs willing to enter to the energy market is one factor to question in line with the rational choice theories to explain institutional change after the 2001

economic crisis. The companies having BOT, BO, TOOR, and autoproducer[17] contracts and the companies who intended to invest in the sector asked to the government to shift to a new institutional structure. For example, Firm #2[18] stated that "private sector companies did not put pressure on the government about the rules of the new structure, but they definitely met with related officials to support and accelerate the process." Firm #4[19], #5[20], and #8[21] also specified that at that time private company executives set personal meetings with government authorities to speed up the electricity market liberalization process. NGO #1[22] and #2[23] indicate that the private companies in the sector had a considerable effect on the government and they supported the liberalization process. PI #4[24] confirmed that "the private companies generating electricity under the scope of BOT, BO, TOOR, and autoproducer contracts supported the process, because they had already learned the business, and had seen how profitable the business is."

All PIs, Firms, and NGOs agree that although the private sector supported the process, they could not exert full influence during the legislative changes. They were not the main impetus of privatization and liberalization processes in electricity market after 2001 and 2004. When I consider the historical background of state-business relation in Turkey's political economy, Turkey can be defined with the characteristics of a cohesive-capitalist state given its pragmatic capitalist development strategy to contribute to private sector's capital accumulation. The

[17] Some companies gained the right to generate its own electricity need with autoproducer contracts in the mid-1990s. These companies are called "autoproducers."
[18] Firm #2, a senior manager interviewed on July 12, 2018, in Ankara
[19] Firm #4, a senior manager interviewed on July 13, 2018, in Ankara
[20] Firm #5, a senior manager interviewed on July 16, 2018, in Ankara
[21] Firm #8, a senior manager interviewed on July 27, 2018, in Ankara
[22] NGO #1, a senior representative interviewed on July 12, 2018, in Ankara
[23] NGO #2, a senior representative interviewed on July 13, 2018, in Ankara
[24] PI #4, a senior officer interviewed on July 16, 2018, in Ankara

2004 Strategy Paper described the policy actions to be taken so that the state can transfer its rights in electricity production and distribution to the private sector. The main goals in the 2004 Strategy Paper are laying renewal and development burden only on private sector, providing security of supply, and providing a fair competition between the companies in the sector. Therefore, the state desired to maintain its economic and therefore national sovereignty. Furthermore, in the paper, the state articulated its overall goal to continue to liberalize the sector under the scope of the EU accession process.

The other goals of the paper were decreasing electricity generation and distribution costs by efficient use of related assets and preventing technical losses and electricity leakages in distribution network. The state aimed at decreasing the electricity costs to legitimize the institutional shift from public management to private sector's involvement in the electricity production, which has started to be perceived as a private good with strong public good characteristics. In other words, gaining political support from the public has always been a concern in politics of institutional change in Turkey's economic development, which is one of the main characteristics of multi-class fragmented states. In fact, some PI officials, firm managers, and one NGO representative (PI #1[25], #2[26], #4; Firm #1[27], #3[28]; NGO #2[29]) highlighted that the state by itself cannot meet all needs in all sectors, including education, health, social security, and energy. Therefore, it needs to ally with private companies. In this regard, energy sector by nature provides proper conditions for this alliance. In Turkey, public authority seems to be based on a

[25] PI #1, a senior officer interviewed on July 9, 2018, in Ankara
[26] PI #2, a senior officer interviewed on July 10, 2018, in Ankara
[27] Firm #1, a senior manager interviewed on July 11, 2018, in Ankara
[28] Firm #3, a senior manager interviewed on July 12, 2018, in Ankara
[29] NGO #2, a senior representative interviewed on July 13, 2018, in Ankara

broader class alliance as evinced in the liberalization process of the electricity market. Thus, Turkey can be considered more as a fragmented-multiclass state since the economic development goals are not narrowly focused or effectively defined as those in cohesive-capitalist states (Kohli 2004, p. 11).

According to rational choice arguments, the institutional change is a process that depends mostly on the self-interests of actors. However, the institutional change process, in the early 2000s in Turkey, cannot be solely explained by the self-interests of companies and politicians. First of all, it is hard to detect the self-interests of politicians from the data I collected. Furthermore, although private sector supported fully the process, they were not the main driving force behind the privatization and liberalization processes in the sector after 2001 and 2004. Turkey had been struggling with successive financial and economic crises in 1990s and early 2000s. The overwhelming balance of payment problems and economic recession urged Turkey to get IMF loan. The conditionalities in the agreed IMF program required a series of policy reforms, including privatization and liberalization in electricity production and distribution sectors. This was also one of the conditions in adopting the EU acquis for Turkey's accession to the EU. Therefore, exogenous factors were quite important in the institutional changes by transferring electricity production and distribution ownership to private sector. Thus, I argue that the rational choice explanation is insufficient to understand and explain the politics of institutional change in the energy sector.

Within this framework, "gradual change" arising from endogenous sources of instability argued in the historical institutionalism literature is important. Briefly, they argue that endogenous mechanisms of change are more influential than

exogenous ones. This argument seems to explain the institutional change process in electricity sector in Turkey. Although the exogenous shock of the 2001 crisis had contributed to the restructuring taken under the influence of the IMF program and the EU accession process, privatization and liberalization in electricity production and distribution sectors had already started as an endogenous process. The governments and public institutions had been debating and working on reforming the economy and the public sector. Neo-liberal ideas have been promoted in different policy circles to remove the state intervention and to use state apparatus as a regulatory power. For example, PIs #1[30], #2[31], and #4 and Firm #4[32] stated that the bureaucrats and technocrats of the related ministries were already working on privatization and liberalization process before the economic crisis and the consequent restructuring program. The bureaucrats and the politicians were quite aware of technical incapability to meet the projected demand in electricity sector at that time.

According to historical institutionalists, there are four different categories of gradual change: "displacement," "layering," "drift," and "conversion." (see Chapter 2.2.2 Historical Institutionalism, p. 25) Displacement means the removal of old institutional rules and the replacement of the new ones. Layering refers to the introduction of new regulations without displacing the old ones. The 2001 Electricity Market Law replaced the old institutional rules with new ones and removed the state's monopoly in electricity sector. This development was a clear displacement. However, the 2004 Higher Planning Council Decision, the establishment of Market Financial Settlement Center in 2004 , the 2011 Decree Law 649, the 2012 Law 6353

[30] PI #1, a senior officer interviewed on July 9, 2018, in Ankara
[31] PI #2, a senior officer interviewed on July 10, 2018, in Ankara
[32] Firm #4, a senior manager interviewed on July 13, 2018, in Ankara

Related to Making Amendments, and the 2018 Regulation for Electricity Market Capacity Mechanism demonstrates that the state introduced new regulations without displacing the old ones in these specific legislative domains of the electricity sector. Therefore, these findings evince that displacement type in gradual change of institutions has been replaced with layering type starting from 2004.

Historical institutionalist scholars introduced the gradual change argument to provide an explanation for why specific types of changes are prone to occurring in particular political contexts and in institutions with specific features (See Chapter 2.2.2 Historical Institutionalism, pp. 24-25). They argue that while both displacement and layering include the introduction of new formal regulations, it is the presence or absence of veto possibilities that determines which one happens. Accordingly, if there are actors in existing institutions having strong veto power, they are more likely to withstand displacement, leading to layering. In the case of Turkey, veto players were the Constitutional Court and Council of State (*Danıştay),* which took several decisions against the privatization and liberalization electricity sector in the mid-1990s (Erdogdu 2007). However, the state neutralized the involvement of Constitutional Court and *Danıştay*, with the legislative changes issued in the 2001 Electricity Market Law, which was a displacement in the gradual change of institutions in the electricity market. Hence, in the absence of veto powers in the sector, the state has moved through gradual institutional change with layering since 2004.

4.2.2. Constructivism and Politics of Institutional Change:

4.2.2.1 Uncertainty, Ideas, and Paradigm Shift in Electricity Sector in Turkey

According to constructivist scholars, exogenous material changes, such as the 2001 economic crisis and subsequent restructuring programs in Turkish economy can help explaining why a particular institutional order becomes unstable. But they do not explain how the new or modified order becomes existent. Like historical institutionalists, they argue that "while the destabilization of existing institutions may be exogenously driven, moving from such a position to a new stable institutional order must be seen as an endogenous process" (Blyth 2002, p. 8). Constructivism argues that ideas are the key element in institutional change.

Ideas produce institutions by enabling agents to overcome collective action problems. Also, economic ideas let agents decrease uncertainty, propose a specific solution to a moment of crisis, and empower agents to resolve the crisis in question, by constructing new institutions in accordance with these new ideas (Blyth 2002, p. 11). Complex set of ideas enable agents to order and interfere in the world by aligning agents' beliefs, desires, and purposes. By developing ideas, therefore, agents decrease uncertainty to a significant level, by reducing the number of possible interpretations of the crisis, and hence courses of action.

According to constructivist scholars, we have to reconsider the nexus between ideas and interests. When an economic crisis occurs with uncertain origins, economic ideas become even more remarkable. Because ideas serve as simplifying blueprints that tell agents what to do and what future to anticipate. Thus, Blyth (2002) argues that only after accepting ideas as having different casual effects in different periods as part of a sequence of change, one can explain both stability and change. Blyth

(2002) establishes five particular sequences about how institutional change occurs. First, ideas decrease uncertainty in periods of economic crisis. Second, following the uncertainty reduction, ideas gather the actors around them and make collective action and coalition building possible. Third, after coalition building and collective action process, ideas are used as weapons to struggle over existing institutions. Fourth, following the delegitimation of existing institutions, new ideas act as institutional blueprints. Fifth, having built a new institutional construction, ideas make institutional stability possible (Blyth 2002, pp. 34-36).

Hall also argues that ideas are central to policymaking. Policy makers follow procedures within a framework of ideas and standards, which is defined as policy paradigm (Hall 1993, p. 279). Therefore, policy makers act in accordance with the policy paradigm. Further Hall describes three different types of change (see Chapter 2.2.3 Constructivism and Institutional Change, pp. 33-35). During "normal policymaking," a process that adjusts policy without challenging the overall terms of the given policy goals and means to achieve them, we would not expect any substantial institutional change. The other type of change conceptualized as the Third order change, however, is a very different process that leads to radical changes in the existing structure of policymaking, which is called as a "paradigm shift" (Hall 1993, p. 279).

In this study, I observe that despite the extent of exogenous factors, such as the 2001 economic crisis and the IMF's conditionality influencing institutional change in electricity sector, I argue that the politics of institutional change in this sector is mainly an endogenous process. The state-led planned economic development policy was abolished by the economic stability program in 1980, which is known as

"24 January Decisions." When the Motherland Party won the elections in 1983, liberalization of economy began under *Turgut Özal* led government. Turkey's economic integration into international markets have been accelerated after the institutional changes in economy in the 1980s. From 1980 onwards, different governments were committed to follow liberalization process in the economy, including electricity sector. Therefore, policymaking and economic thinking had shifted to dominance of liberal economic ideas (Onis & Senses 2009, p. 11). Interestingly, Turkey's experience in following the paradigm shift to neo-liberal ideas was a common trend in politics of institutional change among other developing countries (Babb 2013, pp. 289-291; Öniş 2004, pp. 129-130).

In 1990s, under the scope of these new neo-liberal economic ideas, existing public enterprises and power plants were transferred to private sector by employing distinct methods, such as TOOR, BOT, BO, and Sale of Property.'' Thus, the 2001 Electricity Market Law and the 2004 Strategy Paper were the continuation of an endogenous process led by a new economic model based on ideas. PIs #1[33], #2[34], and #4[35] and Firm #4[36] underlined the importance of new ideas by indicating that the bureaucrats and technocrats of ministries were already working on privatization and liberalization processes before the 2001 economic crisis. Senior officials from Public Institutions (PIs) #1, #2, and #4 emphasized that their institutions before the 2001 Law on Electricity Market were working on how to liberalize electricity production and distribution. In fact, Firm #4 states that

[33] PI #1, a senior officer interviewed on July 9, 2018, in Ankara
[34] PI #2, a senior officer interviewed on July 10, 2018, in Ankara
[35] PI #4, a senior officer interviewed on July 16, 2018, in Ankara
[36] Firm #4, a senior manager interviewed on July 13, 2018, in Ankara

"I remember, in 1998-99, officials at the MENR were talking about a free market system in electricity sector. As they were very well aware of that TEAŞ and TEDAŞ were not efficient and fast enough to meet projected electricity demand at that time. Private sector should have taken a leading role."

Within this framework, Blyth's five sequences about how institutional change occurs is important to examine. In the first step, according to Blyth, ideas decrease uncertainty in periods of economic crisis. Since the early 1990s, Turkey has been experiencing successive economic crises. Most of the interviewees expressed that there were more uncertainties than risks in the early 2000s. No one did not know what would happen next in electricity sector at that time. However, after the enactment of the 2001 Electricity Market Law and the declaration of 2004 Strategy Paper, Turkey started to proceed towards specific policy goals, which decreased the uncertainty level. According to Blyth, following the uncertainty reduction, ideas gather the actors around them and make collective action and coalition building possible. In fact, in the aftermath of the 2004 Strategy Paper, state institutions and private enterprises aligned together in the new privatization and liberalization process in the energy market (Ipek 2015, p. 173). The state institutions and private sector acted in concert to reach a common purpose, which is a new free market in electricity production and distribution.

Nevertheless, I argue that we do not observe the other sequences described in Blyth's study (2002) because of path dependence in the historical trajectory of state-business relation in Turkey's political economy (Buğra 1994). According to Blyth's sequences of institutional change, after coalition building and collective action process, ideas are used as weapons to struggle over existing institutions. And

then, following the delegitimation of existing institutions, new ideas act as institutional blueprints. Therefore, after the new institutional construction, ideas make institutional stability possible.

The liberalization process in the electricity market between 2001 and 2004 I described fits into Peter Hall's (1993) definition of paradigm shift that refers to a comprehensive alteration in the system. In other words, the 2001 Electricity Market Law and the 2004 Strategy Paper indicate a paradigm shift. Hall (1993) also states that if the existing paradigm is genuinely not able to deal with anomalous developments, it will end up with policy failures and gradually undermine the authority of the existing paradigm and its supporters. Hence, the movement from one paradigm to another in third order change is "likely to involve the accumulation of anomalies, experimentation with new forms of policy, and policy failures that precipitate a shift in the locus of authority over policy and initiate a wider contest between competing paradigms" (Hall 1993, p. 280) . The third order change will end only when the protagonists of a new paradigm secure their positions over existing policymaking and are capable of readjust the organization and standard operating procedures of the policy process so as to institutionalize the new paradigm.

In the case of Turkey, the 2004 Strategy Paper set a policy goal that aimed to finish the market liberalization process in electricity sector until 2010. But this did not happen. The process was very slow and contested by time by the ruling political elite. For example, the government reduced the EMRA's authority level during the process. One of the most significant efforts to liberalize Turkish electricity market was made when EML came into force in 2001. The leading motive behind the introduction of the law was to satisfy the increasing electricity demand, which could

not be supplied with the existing public ownership of assets in electricity production and distribution. Therefore, a liberal market environment in which local and international entrepreneurs can compete with each other to meet the required electricity need was a new idea to bring in the necessary institutional changes. In order to guarantee competition in the market among both local and international firms, the government established a new "independent" regulatory agency, EMRA in 2001 (TOG 2001).

At the first draft of the law, the suggestion was that the board of governors of EMRA was to be formed by the candidates nominated by the Minister of Energy and Natural Resources (2 members); by the Council of State (*Danıştay*), the Competition Authority, and the Union of Chambers and Commodity Exchanges of Turkey (TOBB) (3 members); and the Board itself (2 members). However, the formation of the board was completely amended by the Committee of Planning and Budget in Turkish National Assembly in 2001. With the 2001 EML, the authority to appoint all board members was given to the Council of Ministers. Also, with the law 5018, Public Finance Management and Control Law, financial audit authority of EMRA was given to the Supreme Auditing Board of Prime Ministry, as well as Turkish Court of Accounts (*Sayıştay*), in 2003. Moreover, with the decree law 649, all ministries gained power to audit the activities of relevant regulatory agencies in 2011. So, the MENR had gained a right to supervise all activities of EMRA in 2011. And, with the article 22 in law 6353 of 2012, EMRA transferred all the audit rights of electricity distribution companies to the MENR. In short, the authorities and responsibilities of the EMRA designed to guarantee competition in the market was undermined during this process.

In fact, the importance of institutional change and the current status regarding the role of the EMRA as a regulatory agency guiding state-business relation in the energy market was clearly highlighted during the interviews. For example, Firm #2[37] states that "The EMRA is one of the most important shareholders in electricity production and distribution, but it can only move according to the framework determined by the MENR." Firm #5[38] stated that "The MENR defines strategy and audits the EMRA and the sector. The MENR has a lot of policy tools to control the sector and the EMRA is nothing more than implementing these policy tools." Firm #2, #8[39] and #9[40] confirmed that the EMRA cannot make independent decisions. According to Firm #4[41] and #6[42], the EMRA has lost its authority during the process. All Public Institutions (PIs #1[43], #2[44],#3[45], and #4) and NGOs (NGO #1[46] and #2[47]) agreed that today the EMRA is merely a policy tool of the MENR. According to NGO #2, the most significant problem in the electricity production and distribution sector is the lack of a healthy governance mechanism. The private sector should be represented in the policy-making process. For example, a private sector representative should be in the EMRA board of governance. According to NGO #2 representative, this is the only possible way to build a more secure investment environment.

[37] Firm #2, a senior manager interviewed on July 12, 2018, in Ankara
[38] Firm #5, a senior manager interviewed on July 16, 2018, in Ankara
[39] Firm #8, a senior manager interviewed on July 27, 2018, in Ankara
[40] Firm #9, a senior manager interviewed on July 30, 2018, in Ankara
[41] Firm #4, a senior manager interviewed on July 13, 2018, in Ankara
[42] Firm #6, a senior manager interviewed on July 16, 2018, in Ankara
[43] PI #1, a senior officer interviewed on July 9, 2018, in Ankara
[44] PI #2, a senior officer interviewed on July 10, 2018, in Ankara
[45] PI #3, a senior officer interviewed on July 11, 2018, in Ankara
[46] NGO #1, a senior representative interviewed on July 12, 2018, in Ankara
[47] NGO #2, a senior representative interviewed on July 13, 2018, in Ankara

In its current status the EMRA cannot make any amendments in related regulations without consulting to the MENR. The MENR may veto proposed changes, and the EMRA has to follow whatever the MENR dictates. The main policy framework is determined by the MENR, and the EMRA has to function in this politically determined policy framework. Thus, the state can easily intervene in the electricity market, either production or distribution sector.

4.2.2.2. The Paradox of Liberalism as an Endogenous Process of Path Dependent Institutional Change within the Historical Trajectory of State-Business Relation in Turkey

In light of the uncertainty and ideas that influenced the paradigm shift in Turkey's electricity sector, which is presented in previous section, I argue that "the paradox of liberalism" in Turkey continues. The role of state did not get smaller during the 2000s, which can be considered as a path dependent process in the historical trajectory of state business relations in Turkey (Buğra 1994; 2014). According to historical institutionalists, path dependence refers to the restrictions of newly established institutions, which stems from already established ones. Also, according to the same school, as institutions have multiple effects, and actors have limited time horizons and information, institutions may lead to unanticipated and unintended consequences. During the process, the state undermined the authority of the EMRA with layering, leading to unanticipated consequences in the politics of institutional change in the electricity market. Although the main purpose has been to create a competitive electricity market, today the market is beyond being liberal nor competitive.

The liberalization programs in the 1990s was designed in line with monetary approach; and mostly focused on the demand-side measures. However, the programs did not take effective measures to improve productivity of public expenditures and efficiency of tax system. Hence, there was no sufficient decrease in public expenditures and increase in tax revenues. Budget deficits, external debts, inflation and unemployment reached high level, while economic growth rates decreased significantly in late 1980s. Thus, Turkey encountered a series of financial and economic crises in 1994, 1999, 2000 and 2001 successively. Especially, starting from 1990s, the state decided to shift to a new liberal structure with BOT, BO, TOOR, and autoproducer contracts, transferring its monopoly rights in electricity production to private sector. Although *Danıştay* slowed down the process by using their veto powers (Erdogdu 2007), later the government neutralized the involvement of the Constitutional Court and *Danıştay* into the electricity market, with the legislative changes issued in the 2001 Electricity Market Law. In this regard, the Court and *Danıştay* can be seen as one another component of path dependence. The state was taking first steps of privatization process in Turkish electricity sector, while the Court and *Danıştay* were gearing down the process.

Buğra (2014) presents that starting from 2000s, the Justice and Development Party (JDP) supported ten family companies and groups. These business groups began to increase their economic power rapidly, which are Çalık Holding, İÇ Holding, Cengiz Group, Ethem Sancak, Fettah Tamince, Kiler Group, Kalyon Group, Kuzu Family, Cihan Kamer, and Akın İpek. These companies invested in different sectors from tourism to construction. However, one common feature of these holdings was that they all have business activities in the energy sector. All ten holdings invested in

energy production and distribution sectors. Buğra argues that privatization, public tenders, and public-private partnerships played a key role in their rapid growth (Buğra 2014, pp. 143-144).

Meanwhile, there were two remarkable developments in the context of state-business relation in electricity sector. First, the attempt to build the Market Management System (and the establishment of the EMRA) in electricity sector was a groundbreaking action. Second, a number of new business groups supported by the government were increasing their power and share in selected sectors. According to Polanyi, “the economy is, as a rule, embedded in a society. . . For a century the dynamics of modern society was governed by a double movement: the market expanded continuously but this movement was met by a countermovement checking the expansion in definite directions” (Polanyi 1944, p. 130). Buğra in her book titled “State and Business in Modern Turkey” indicates that according to liberal and rational scholars, the economy is a system in which societal determinants in state-business relationship lose their importance, because the main motive of the economic system is “the money-loving instincts of individuals” (Buğra 1994, p. 3). However, supporting Blyth’s study (2002), Buğra states that this sort of rationality is not reflected in the autobiographies of Turkish businesspeople. Buğra's research findings on state-business relation in the case of Turkey present that Turkish businesspeople had no expectations about the capitalist development without a state intervention. Rather than reduced state intervention, they clearly emphasized their need on tighter relations with government authorities. Her research results highlight that there are divergences between Turkish and Western value systems and institutional bases of business life. Turkish businesspeople

apparently could not internalize the basic values of capitalist development (Buğra 1994, pp. 3, 5). Accordingly, cultural values also play an important role in state-business relationship, as well as economic interests (Buğra 2014, pp. 252-253). Regarding specifically energy sector, in fact, Sever (2015) argues that the formation of the EMRA differs from many other states' regulatory authorities because of the Turkish administrative and political culture. The EMRA and other regulatory authorities should ideally be independent from the central authority and its audit. However, in the case of Turkey, the EMRA seems to be one of the law enforcement agencies of the governments (Sever 2015, p. 203).

Accordingly, I conducted several interviews with the sector players in order to understand and explain further the politics of institutional change in electricity sector as path-dependent endogenous process within the historical trajectory of state-business relation in Turkey[48]. First, I questioned the degree of institutionalized communication channels during the policy making process between the state and business including related business associations. PI #1[49] stated that

"We do not make any amendments in regulations without taking opinions of all stakeholders. In fact, we even take the opinion of ordinary citizens. Whenever we decide to make new regulations, we publish the draft version on our official website for one month. So that, everyone can express its opinion about the draft and we take all the opinions seriously."

Similarly, PI #2[50] described the same process and adds that the private company representatives come by any time to their offices explaining what they want and telling their problems face to face to the related bureaucrats. Firm representative

[48] The interview questions can be seen in Appendix C.
[49] PI #1, a senior officer interviewed on July 9, 2018, in Ankara
[50] PI #2, a senior officer interviewed on July 10, 2018, in Ankara

and business associations send their workshop reports sometimes that according to PI #2[51] the public officials take all these visits by private firms, their meetings, and such workshop reports seriously. PI #3[52] indicated that private companies make every effort to communicate with their departments, such as via face-to-face communication, official letter, workshop reports, and NGOs. PI #3 also confirmed that bureaucrats take business people's demands seriously. However, PI #4[53] pointed out that the bureaucrats of related public offices within the ministry prepare the draft version. But it is not easy to amend the draft once it is approved by the Minister; and they do not want to annoy the Minister by suggesting some changes in the regulation in question.

Firm #1[54], #5[55], and #6[56] indicated that although they have communicated with related public institutions several times through different ways, no one has taken their demands and suggestions seriously. These business managers argue that their demands and suggestions were not reflected to the regulations. According to Firm #3[57], the effectiveness of NGOs has decreased considerably. Now, without having contact with the Minister and/or the President the companies cannot find any solution to their problems. Firm #4[58] stated that

"we arrange face to face meetings with the Minister, the Prime Minister or the President to convey our problems. Otherwise, we would not be able to solve them. Of course, we also use NGOs, but NGOs are not effective tools to solve our problems."

[51] PI #2, a senior officer interviewed on July 10, 2018, in Ankara
[52] PI #3, a senior officer interviewed on July 11, 2018, in Ankara
[53] PI #4, a senior officer interviewed on July 16, 2018, in Ankara
[54] Firm #1, a senior manager interviewed on July 11, 2018, in Ankara
[55] Firm #5, a senior manager interviewed on July 16, 2018, in Ankara
[56] Firm #6, a senior manager interviewed on July 16, 2018, in Ankara
[57] Firm #3, a senior manager interviewed on July 12, 2018, in Ankara
[58] Firm #4, a senior manager interviewed on July 13, 2018, in Ankara

According to NGO #1[59], official letters or workshop reports do not have an effect on solving any problem. So, the NGO representatives underline that they frequently visit the MENR and the EMRA in order to find a solution for the problems of their members and in the electricity sector through face-to-face communication. Firm #7[60], #8[61] and #9[62] also pointed out that the only way to solve their problems is to communicate with senior bureaucrats in the MENR and/or the EMRA or even the Minister; otherwise, they would not be able to overcome their problems. Firm representatives give the Regulation for Electricity Market Capacity Mechanism as an example for such a method. They say that after several meetings with senior officials they could persuade the MENR on this regulation. Furthermore, NGO #2[63] stated that

"the most effective way to put your view across is to contact directly with the Minister or the President. Otherwise, it is quite hard to get a positive outcome. However, I cannot say that official letters and workshop reports are completely useless. Almost for two years, we have been trying to convince the officials about the Electricity Market Capacity Mechanism, and eventually in January, the mechanism passed into law and came into effect in April. However, at the last minute the government included a line to the regulation, indicating that the companies generating electricity from domestic resources will be privileged. That is why, two third of the capacity mechanism budget goes to the domestic coal fired power plants. The natural gas fired power plants can only get one third of the budget."

[59] NGO #1, a senior representative interviewed on July 12, 2018, in Ankara
[60] Firm #7, a senior manager interviewed on July 17, 2018, in Ankara
[61] Firm #8, a senior manager interviewed on July 27, 2018, in Ankara
[62] Firm #9, a senior manager interviewed on July 30, 2018, in Ankara
[63] NGO #2, a senior representative interviewed on July 13, 2018, in Ankara

According to Firm #6[64], the capacity mechanism passed into law thanks to some foresighted senior bureaucrats. Firm #7[65] conversely said that

"of course we cannot take everything that we desire, but when we contact with the MENR or the EMRA, the officials and board members take our problems seriously and we often find a compromise."

Therefore, according to my findings (the amendments in 2003, 2011, and 2012; and interviews above), the extent of institutionalized communication between the state and business have improved compared to the findings of Buğra (1994). NGOs played an important role in transferring business demands to public institutions in the early 2000s. However, although sector NGOs played a substantial role until the mid-2000s, they have lost their effectiveness with the changing institutional framework during the process. Furthermore, political elite such as the Minister and the President have increased the influence in politics of institutional change, which undermined the active role of NGOs in the sector.

Second, I tried to understand the risk and uncertainty perceptions and future expectations of the sector players regarding the electricity market developments and their relation with the state. According to NGO #2[66], one of the main risks and/or uncertainties for the sector arises from the state intervention to the system. Firm #7 states that

"what we want is no more change in regulations, because you make a future plan and accordingly keep working. However, when sudden a change happens in regulations, it might turn your plans upside-down."

[64] Firm #6, a senior manager interviewed on July 16, 2018, in Ankara
[65] Firm #7, a senior manager interviewed on July 17, 2018, in Ankara
[66] NGO #2, a senior representative interviewed on July 13, 2018, in Ankara

NGO #1[67] pointed out that frequent regulation changes have worn out the sector. Firm #6[68] confirms by stating that "continuously changing regulations decreases the trust level of investors and harms existing energy producers." NGO #2[69] also emphasized that

"Entrepreneurs anticipating that the sector would reach the supply and demand equilibrium invested in the sector. And, the state would merely play a regulatory and control mechanism role in the system. However, a perfect competition did not happen. Thus, lack of perfect competition and lack of a proper pricing mechanism in the market diminishes the appetite of both existing and future entrepreneurs. Because of this, investments have come to a stopping point. Furthermore, electricity demand of Turkey will continue to increase. Today, the country has a supply surplus in electricity, but the system is not sustainable. So, we can encounter a supply deficit risk within a five-year period."

Firm #6 underlined that EÜAŞ still keeps a considerable amount of electricity production and states that

"It seems that today the sector has a supply surplus, but it will change in the future. If the existing conditions go on, the companies generating electricity from natural gas will have to liquidate or shut down their power plants. Then, we will face with electricity deficit risk.

The MENR does not want to lose this power (referring to the EÜAŞ's production), because if the investment costs are reflected to the market price, there will be a rise in both household and industrial electricity prices, which may lead to loss of votes.

[67] NGO #1, a senior representative interviewed on July 12, 2018, in Ankara
[68] Firm #6, a senior manager interviewed on July 16, 2018, in Ankara
[69] NGO #2, a senior representative interviewed on July 13, 2018, in Ankara

That is why, the government does not want to run the risk of political consequences."

NGO #2[70] also stated that

"most of EÜAŞ has been privatized, but still the share of EÜAŞ (almost 20 % of the market) is strong enough to dominate the market price. As EÜAŞ has no investment cost, it can generate and sell electricity in low prices. So that, it is still a huge barrier to a cost-base electricity price formation in the market. Therefore, even if the natural gas fired plants can afford the operating costs, they are not capable of covering the investment costs."

According to Firm #7[71] and #9[72], the state keeps big hydro power plants in its hand – via EÜAŞ and TETAŞ (State Economic Enterprises). These plants constructed long time ago and they have almost no depreciation expenses. Therefore, they are able to generate and provide electricity with low prices. In order to sell their products, the private companies have to cut the prices. However, in this manner, the business is beyond being profitable. NGO #1[73] confirmed that

"today the state seriously intervenes in the market price. That is why, there are no new investors and existing entrepreneurs are on the edge of bankruptcy. If Turkish industry continues to develop, I think we will have a security of supply problem within 3-5 years."

[70] NGO #2, a senior representative interviewed on July 13, 2018, in Ankara
[71] Firm #7, a senior manager interviewed on July 17, 2018, in Ankara
[72] Firm #9, a senior manager interviewed on July 30, 2018, in Ankara
[73] NGO #1, a senior representative interviewed on July 12, 2018, in Ankara

According to PI #4[74], supply security is the key component defining state-business relationship in electricity sector. PI #1[75] also pointed out that natural gas is a vital item that may put supply security of Turkey in at risk and says that

"if the proportion of natural gas in your energy mix is high, and if you import almost all of it, your supply security is definitely at risk. In fact, when Turkey shot the Russian aircraft in 2015, we worried that Russian Federation would cut the natural gas valves of Turkey. This would happen."

According to PI #2[76], even if the proportion of natural gas in electricity generation is at the level of 35 % annually, in some seasons it rises up to 60 % or so. When we consider high import rates of natural gas from Russia and Iran, this is a remarkable risk for Turkish energy supply. PI #4 raises similar concerns and states that

"If Turkey has an important international problem with Russia, it means that Turkey is in trouble. In order not to get into trouble, Turkey has to diversify not only the resources themselves, but also its supplier and pipeline routes. It has to support renewables, to build LNG (Liquefied Natural Gas) facilities, and to develop new pipeline projects like TANAP (Trans Anatolian Natural Gas Pipeline)."

According to Firm #1[77], the only vulnerability of Turkey in energy supply is the high rate of natural gas in energy mix and states that

"when the winter is too cold, the Ukraine extracts more gas from the pipeline, leading to decrease the pipeline pressure. As natural gas power plants do not work in low pressure, Turkey cannot take enough gas from the pipeline at times. The citizens do not feel it, because the government decreases the production of iron

[74] PI #4, a senior officer interviewed on July 16, 2018, in Ankara
[75] PI #1, a senior officer interviewed on July 9, 2018, in Ankara
[76] PI #2, a senior officer interviewed on July 10, 2018, in Ankara
[77] Firm #1, a senior manager interviewed on July 11, 2018, in Ankara

and steel up to 20 %, and transfers required electricity to households. I cannot even think of what would happen if Russia decided to cut off all natural gas supply."

Conversely, according to Firm #3[78], #5[79], #6[80], #8[81], #9[82] and NGO #1[83], #2[84], the 35 %-share of natural gas in energy mix is necessary for supply security. Indeed, if the share of natural gas decreases, Turkey then gets into trouble about supply security. Firm #3 stated that Russia sells almost 30 % of its natural gas to Turkey (the second biggest customer of Russia in natural gas); therefore, if Russia stops selling natural gas to Turkey, its economy cannot afford it. Furthermore, Firm #3 stated that

"if such a thing happens, Turkey can build two or three LNG fired marine electricity terminal within six months to provide electricity to the country. After that, Turkey does not need natural gas anymore. So, cutting natural gas of Turkey is out of question."

Firm #5 and NGO #1 emphasized that there has never been a big problem about natural gas sale between Russia and Turkey for more than 30 years; and there is a slight chance of having difficulty in natural gas sale with Russia. According to them the natural gas sale between Russia and Turkey is bound by an international contract, thus, Russia cannot cut natural gas overnight. Firm #6[85] stated that

"you can switch on natural gas power plants and provide electricity in an instant, while hydro, solar, and wind power plants depend on seasonal conditions. Therefore, having natural gas plants are better than to pray for rain, sun and wind. But it is better to diversify suppliers and the routes of pipelines."

[78] Firm #3, a senior manager interviewed on July 12, 2018, in Ankara
[79] Firm #5, a senior manager interviewed on July 16, 2018, in Ankara
[80] Firm #6, a senior manager interviewed on July 16, 2018, in Ankara
[81] Firm #8, a senior manager interviewed on July 27, 2018, in Ankara
[82] Firm #9, a senior manager interviewed on July 30, 2018, in Ankara
[83] NGO #1, a senior representative interviewed on July 12, 2018, in Ankara
[84] NGO #2, a senior representative interviewed on July 13, 2018, in Ankara
[85] Firm #6, a senior manager interviewed on July 16, 2018, in Ankara

Further, NGO #2[86] indicated that

"Turkey has to have at least 20-25 % of natural gas in its energy mix. Today, the subsidy system in Turkey is not fair to the companies generating electricity from natural gas. Promotions are only for the companies generating electricity from renewables and local coal."

According to Firm #3[87], the more renewables you have, the higher risk in security of supply you shoulder, while it stated that

"as renewable resources depend on seasonal conditions, country should keep a fair amount of natural gas and coal fired power plants in its hand. Even though, today, it seems that Turkey has enough natural gas fired power plants, in the near future, considering the rise in Turkish industry, they will not be able to meet electricity demand in case of seasonal disconformity. First of all, there has been no investment in natural gas fired power plants for almost five years. What is more, international companies generating electricity from natural gas started to abandon Turkish electricity market. For example, Australian OMV firm sold its natural gas fired power plant to a domestic firm.

We are generating electricity from natural gas and we want to have former subsidies again. Subsidies, today, are only for renewables and domestic coal. There has not been a natural gas fired power plant investment and project for almost five years. The existing power plants have financial difficulties. If they switch off its plants, then we will start talking about supply security."

According to Firm #3, pricing policy is a substantial part of supply security. However, if states intervene in pricing mechanism, they put supply security at risk. The cost of

[86] NGO #2, a senior representative interviewed on July 13, 2018, in Ankara
[87] Firm #3, a senior manager interviewed on July 12, 2018, in Ankara

electricity production has continuously been going up. For instance, when the privatization process began, companies took loans in dollar. The dollar/TL exchange rate was 1.8, but today it is 4.8. Hence, in order to enable these companies' to pay for their debt, they have to gain at least three times more than before. But there is no such an increase in the companies' revenues. By using the EÜAŞ and the TETAŞ, the government intervenes in the pricing mechanism, so electricity price is determined at a very low level. The government does not want an increase in electricity prices, because it will return as loss of votes. However, natural gas fired power plants seem to be suffering severely under these market conditions.

Firm #1[88] also confirmed that one of the most significant risks and uncertainties in the sector is low and uncertain prices and states that "the fluctuations in dollar/TL parity exacerbate the uncertainty." According to Firm #4[89], unanticipated rise in dollar is a considerable risk for the sector that the entrepreneurs, who expected a competitive and free electricity market, are about to abandon the market because of the state intervention. Firm #6[90] underlined that the system does not work in accordance with supply and demand mechanism. That is why, the companies in the sector are not able to pay their debts to the banks. Today, the energy companies are generally restructuring their debts. According to NGO #2[91], the biggest energy companies might be owned by the banks in the future given further information about the sector in highly debt below:

"There is 70 billion worth investment in electricity production sector. And, 40 billion of this is funded by Turkish banking sector. So, this situation is not only risk

[88] Firm #1, a senior manager interviewed on July 11, 2018, in Ankara
[89] Firm #4, a senior manager interviewed on July 13, 2018, in Ankara
[90] Firm #6, a senior manager interviewed on July 16, 2018, in Ankara
[91] NGO #2, a senior representative interviewed on July 13, 2018, in Ankara

for electricity producers, but also risk for Turkish banking sector. Today, the annual profit of electricity producers in Turkey is 500 million dollar. However, their annual bank loan payment is 2.9 billion dollar. This 2.4 billion dollar deficit is not sustainable."

In sum, according to my findings we can list the risk and uncertainty perceptions of the stakeholders namely the public officials, private firm managers and NGO representatives as follows:

Risks in the electricity sector in Turkey:

- **Supply of Security & The Collapse of Existing System**
  - Direct intervention of MENR to pricing mechanism through EÜAŞ and TETAŞ
  - High proportion of natural gas in energy mix
  - High import rate of natural gas
- **Financial Crisis**
  - The gap between profits and costs of the sector may brought about the inadequacy of the sector companies in paying their loans to Turkish banks.

The sources of uncertainty in the electricity sector in Turkey:

- Decrease in EMRA power
- Increasing influence of policy elites in the sector
- Continuously changing regulations
- Lack of subsidies for the electricity generation from natural gas
- Fluctuations in dollar/TL parity
- Unsteady climate conditions
- Potential international frictions with the main natural gas exporter states

Third, I tried to assess the embedded ideational forces between the state and business in electricity sector in the aftermath of the institutional changes since 2001. I questioned whether the senior officers in private sector perceive their business activities strictly in the sense of profit maximization or other motivations, values that may exist. I asked directly "Is the business in this sector lucrative for your company? If "NO," what will happen next? What is your company's future plan?" The answers were quite surprising. Except firm #4[92], all firms declared their loyalty to the government, to the President, and the future goals of Turkey, referring to the 2023, 2053, and 2071 visions. For example, the firm #8[93] states that

"we are a big group, and we have a number of enterprises in different sectors. Even if the electricity production sector is not profitable today, we are able to compensate the losses with our other enterprises' profits. No matter what will happen in the future, we will follow "*Reis*[94]."

Further, Firm #9[95] explicitly stated that

"we as a whole of Turkish society have common goals, like the 2023 and 2071 goals. Therefore, we will play our role to reach these goals. Therefore, gaining profit is not the first aim for our company."

On the other hand, Firm #3[96], #5[97], #6[98], and #7[99] indicated that they are in the business to make money. However, even if the sector is not lucrative any more, they expressed that they will continue their activities even under the severe

[92] Firm #4, a senior manager interviewed on July 13, 2018, in Ankara
[93] Firm #8, a senior manager interviewed on July 27, 2018, in Ankara
[94] The word refers to the President (arising from The President of Republic of Turkey). In Turkey, generally enthusiastic supporters of Recep Tayyip Erdoğan and JDP call him as "*Reis*."
[95] Firm #9, a senior manager interviewed on July 30, 2018, in Ankara
[96] Firm #3, a senior manager interviewed on July 12, 2018, in Ankara
[97] Firm #5, a senior manager interviewed on July 16, 2018, in Ankara
[98] Firm #6, a senior manager interviewed on July 16, 2018, in Ankara
[99] Firm #7, a senior manager interviewed on July 17, 2018, in Ankara

conditions for the sake of Turkey's vital interest. Thus, they described explicitly the survival of the energy sector and their beloved country as strategically and ideationally important value beyond purely self-interested profit maximizing interest.

Even though all firms, PIs, and NGOs indicate, openly or between the lines, that the state should decrease its intervention level in the electricity sector, they also articulate that the state should remain to intervene in the sector up to a point. Moreover, all the companies state that they are hopeful for the future of the sector because according to them in one way or another, the President will find a solution to overcome the problems in the sector. According to Firm #2[100], there is no risk that may affect the existing market conditions negatively. NGO #2[101] also stated that

"now Berat Albayrak (the son-in-law of the President, and the former Energy and Natural Resources Minister) is the Treasury and Finance Minister. And, he is very well aware of the problems in the sector. Therefore, I am hopeful that he will resolve all problems in the sector."

In short, my findings suggest that there is an endogenous process of path dependent institutional change within the historical trajectory of state-business relation in Turkey. The perceived understanding of stakeholders in the electricity market about their self-interested market activities seem to be inseparable from how they frame their actions through uncertainty and ideational forces. In other words, my findings seem to confirm Buğra's argument (1994, 2014) about the divergence between Turkish, and Western value systems, and institutional bases of

[100] Firm #2, a senior manager interviewed on July 12, 2018, in Ankara
[101] NGO #2, a senior representative interviewed on July 13, 2018, in Ankara

business life. Turkish business people apparently could not internalize the basic values of capitalist development. Therefore, cultural values and economic interests seem to continue to play an important role in the historical trajectory of state-business relationship in the case of politics of institutional change in electricity market.

CHAPTER 5

CONCLUSION

Turkey has showed both cohesive-capitalist and multi-class fragmented state types' characteristics during different periods of Turkish economic development. That is to say, Turkey has been experiencing a number of institutional changes, associated with different political coalitions between state and business in economic development within the framework of Kohli's typology for states' role in economic development. During the institutional change process (2001-2017), Turkey can be considered more as a fragmented-multiclass state since the economic development goals are not narrowly focused or effectively defined as those in cohesive-capitalist states.

Rational choice scholars argue that the main drive of institutional change is self-interests of the actors in play. Institutions can only be seen as instrumental creations of individuals. They use these institutions to maximize their own personal utilities. Although actors' self-interests may influence the politics of institutional change in Turkish electricity sector, it cannot be merely taken as the main source of this change. First, to measure the impact of self-interests on actors' behavior is not feasible in my research. Moreover, although private sector supported fully the process, they were not the main driver behind the privatization and liberalization processes in the sector after 2001 and 2004. Turkey had been struggling with successive financial and economic crises in 1990s and early 2000s. The overwhelming balance of payment problems and economic recession urged Turkey to get IMF loan. The conditionalities in the agreed IMF program required a series of policy reforms, including privatization and liberalization in electricity production and

distribution sectors. This was also one of the conditions in adopting the EU acquis for Turkey's accession to the EU. Therefore, exogenous factors were quite important in the institutional changes by transferring electricity production and distribution ownership to private sector. Thus, rational choice explanation is not adequate to understand and explain the politics of institutional change in the energy sector.

Within this framework, "gradual change" arising from endogenous sources of instability argued in the historical institutionalism literature is important. Briefly, they argue that endogenous mechanisms of change are more influential than exogenous ones. Although the exogenous shock of the 2001 crisis had contributed to the restructuring taken under the influence of the IMF program and the EU accession process, privatization and liberalization in electricity production and distribution sectors had already started as an endogenous process. The governments and public institutions had been debating and working on reforming the economy and the public sector. Neo-liberal ideas have been promoted in different policy circles to remove the state intervention and to use state apparatus as a regulatory power. For example, PIs #1[102], #2[103], and #4[104] and Firm #4[105] stated that the bureaucrats and technocrats of the related ministries were already working on privatization and liberalization process before the economic crisis and the consequent restructuring program. The bureaucrats and the politicians were quite aware of technical incapability to meet the projected demand in electricity sector at that time.

[102] PI #1, a senior officer interviewed on July 9, 2018, in Ankara
[103] PI #2, a senior officer interviewed on July 10, 2018, in Ankara
[104] PI #4, a senior officer interviewed on July 16, 2018, in Ankara
[105] Firm #4, a senior manager interviewed on July 13, 2018, in Ankara

Historical institutionalist scholars also introduced the gradual change argument to provide an explanation for why specific types of changes are prone to occurring in particular political contexts and in institutions with specific features (See Chapter 2.2.2 Historical Institutionalism, pp. 24-25). However, conversely to their argument, the state neutralized the involvement of Constitutional Court and *Danıştay*, with the legislative changes issued in the 2001 Electricity Market Law, which was a displacement in the gradual change of institutions in the electricity market. Hence, in the absence of veto powers in the sector, the state has moved through gradual institutional change with layering since 2004.

According to constructivist scholars, exogenous material changes, such as the 2001 economic crisis and subsequent restructuring programs in Turkish economy can help explain why a particular institutional order becomes unstable. But they do not explain how the new or modified order becomes existent. In Turkey, during the institutional change process, despite the extent of exogenous factors, such as the 2001 economic crisis and the IMF's conditionality influencing institutional change in electricity sector, the politics of institutional change in this sector is mainly an endogenous process. They also argue that we have to reconsider the nexus between ideas and interests.

Constructivist scholars state that when an economic crisis occurs with uncertain origins, economic ideas become even more remarkable. Because ideas serve as simplifying blueprints that tell agents what to do and what future to anticipate. In this regard, Turkey's economic integration into international markets have been accelerated after the institutional changes in economy in the 1980s. From 1980 onwards, different governments were committed to follow liberalization process in

the economy, including electricity sector. Therefore, policymaking and economic thinking had shifted to dominance of liberal economic ideas. In 1990s, under the scope of these new neo-liberal economic ideas, existing public enterprises and power plants were transferred to private sector by employing distinct methods, such as TOOR, BOT, BO, and "Sale of Property.'' Thus, the 2001 Electricity Market Law and the 2004 Strategy Paper were the continuation of an endogenous process led by a new economic model based on new ideas that their institutionalization was accelerated under the uncertainty of exogenous shocks and economic crisis.

Within this framework, Blyth's five sequences about how institutional change occurs is important to examine. Turkey has experienced the first and second steps in accordance with Blyth's five sequences. Nevertheless, I could not observe the other sequences described in Blyth's study (2002) because of path dependence in the historical trajectory of state-business relation in Turkey's political economy (Buğra 1994).

The liberalization process in the electricity market between 2001 and 2004 conforms to Peter Hall's (1993) definition of paradigm shift that refers to a comprehensive alteration in the system. In other words, the 2001 Electricity Market Law and the 2004 Strategy Paper indicate a paradigm shift in policy making in the energy sector of Turkey. However, in the case of Turkey, the 2004 Strategy Paper set a policy goal that aimed to finish the market liberalization process in electricity sector until 2010. But this did not happen. The process was very slow and contested by time by the ruling political elite.

In light of the uncertainty and ideas that influenced the paradigm shift in Turkey's electricity sector, "the paradox of liberalism" seems to continue in Turkey. The role

of state did not get smaller during the 2000s, which can be considered as a path dependent process in the historical trajectory of state business relations in Turkey (Buğra 1994; 2014).

Thus, it seems to me that not only historical institutionalist arguments of institutional change, but also the role of uncertainty, paradigm shift, and ideational forces in gradual institutional change should be considered as plausible factors in understanding and explaining the politics of institutional change in state-business relation in the energy sector, specifically in electricity generation from natural gas. Accordingly, my findings underline the importance of social context that constitutes ideational forces in state-business relation. In other words, according to my findings, the 2001 EML and the 2004 Strategy Paper were a follow-up development of the privatization and liberalization processes during 1980s and 1990s.

Buğra's (1994, 2014) research findings on state-business relation in the case of Turkey present that Turkish businesspeople had no expectations about the capitalist development without a state intervention. Rather than reduced state intervention, they clearly emphasized their need on tighter relations with government authorities. Her research results highlight that there are divergences between Turkish and Western value systems and institutional bases of business life. Turkish businesspeople seem to struggle in their relation with the state.

In this regard, my findings demonstrate that, firstly, institutional communication between state and business in Turkish electricity sector has developed since the early 2000s. NGOs as intermediary organizations have become influential actors in the sector. They have conducted workshops and prepared position papers to convey the requests of sector to related public institutions. Secondly, within the

process after the 2001 EML development, electricity generation companies have pursued to reach a fully independent electricity market. In my interviews, I observed that the companies were uncomfortable with the high state intervention in the sector. They urged the state for increasing EMRA's authority again and they want the state to stay away from the pricing mechanism, which shows us that profit seeking motivations matter. However, they also articulated their loyalty to the current President, and his strong endorsement for 2023, 2053, and 2071 goals of Turkey.

Accordingly, as Blyth (2002) & Buğra (2014) suggested, ideas and material interests are hard to differentiate. The perceived understanding of stakeholders in the electricity market about their self-interested market activities seem to be inseparable from how they frame their actions through uncertainty and ideational forces. Turkish business circle apparently could not internalize the basic values of capitalist development, which were observed in early-industrialized Western European states. Moreover, the observed reluctance of businesspeople to pursue further their interest in light of the problems in the electricity sector underlines a contradiction. Thus, my findings through interview data demonstrate that counter social movement matters in the neo-liberalization process. In other words, considering Polanyi's concept of double movement, state-business relations matter in the liberalization process in Turkish electricity sector. This complements why I consider Turkey as a fragmented-multiclass state to elucidate further the context of dependent relations between state and business overall in Turkish political economy. In short, cultural values and economic interests seem to continue to play

an important role in the historical trajectory of state-business relationship in the case of politics of institutional change in electricity market.

Consequently, my findings support the following argument for understanding and explaining the politics of institutional change in Turkish electricity sector: despite the extent of exogenous factors, there is an endogenous process of path dependent institutional change within the historical trajectory of state-business relation in Turkey. The perceived understanding of stakeholders in the electricity market about their self-interested market activities seem to be inseparable from how they frame their actions through uncertainty and ideational forces.

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APPENDICES

APPENDIX A

Population of Firms

No	Firms	Number of Power Plants	Installed Capacity
1)	Elektrik Üretim A.Ş.	58	19.844 MW
2)	Enka Enerji Elektrik Üretim	3	3.830 MW
3)	Enerjisa Enerji Üretim A.Ş.	23	3.703 MW
4)	Eren Holding Enerji Grubu	4	2.927 MW
5)	Cengiz Enerji	9	2.425 MW
6)	Limak Enerji A.Ş.	11	2.379 MW
7)	Bereket Enerji Üretim A.Ş.	24	1.933 MW
8)	Aksa Enerji A.Ş.	8	1.850 MW
9)	İÇDAŞ Elektrik Enerjisi Üretim A.Ş.	3	1.665 MW
10)	Konya Şeker Enerji	5	1.525 MW
11)	Ciner Enerji Grubu	4	1.367 MW
12)	Çelikler Holding Enerji Grubu	9	1.330 MW
13)	Diler Holding Enerji Grubu	2	1.238 MW
14)	Akenerji	9	1.221 MW
15)	Gama Enerji A.Ş.	9	1.101 MW
16)	Ordu Yardımlaşma Kurumu	8	1.087 MW
17)	IC İçtaş Enerji Üretim ve Ticaret A.Ş.	14	958 MW
18)	Acwa Power	1	927 MW
19)	Altek Alarko Enerji Elektrik Santralleri A.Ş.	4	912 MW
20)	OMV Enerji	1	887 MW
21)	Zorlu Enerji Grubu	17	809 MW
22)	Baymina Enerji Gdf Suez	1	798 MW
23)	Steag GmbH	2	733 MW
24)	Güriş Holding Enerji Grubu	16	722 MW
25)	Sanko Enerji Sanayi ve Ticaret A.Ş.	10	700 MW
26)	Bilgin Enerji Yatırım Holding A.Ş.	11	690 MW
27)	Unit Elektrik Üretim	2	568 MW
28)	Çolakoğlu Metalurji Enerji Grubu	3	567 MW
29)	Polat Enerji Sanayi ve Ticaret A.Ş.	12	554 MW
30)	RWE Enerji	1	543 MW
31)	Kolin İnşaat Enerji Grubu	9	522 MW
32)	Boyabat Elektrik Üretim ve Tic. A.Ş.	1	513 MW
33)	Bis Enerji Elektrik Üretim A.Ş.	1	486 MW
34)	Trakya Elektrik Üretim A.Ş.	1	478 MW
35)	Uni-mar Enerji Yatırımları A.Ş.	1	478 MW
36)	Borusan EnBW Enerji	10	446 MW
37)	Demirer Holding Enerji Grubu	17	434 MW
38)	Koç Holding	8	421 MW
39)	Eksim Yatırım Holding Enerji Grubu	7	394 MW
40)	Turkey Petrol Rafinerileri A.Ş.	4	371 MW
41)	Ayen Enerji A.Ş.	8	366 MW
42)	Gülsan Holding Enerji Grubu	8	355 MW
43)	İzmir Demir Çelik İzdemir Enerji	1	350 MW
44)	Ansaldo Enerji	1	346 MW

45)	Özaltın İnşaat Enerji A.Ş.	8	345 MW
46)	Doğuş Enerji	1	332 MW
47)	Fina Enerji Holding A.Ş.	13	330 MW
48)	Habaş Sınai ve Tıbbi Gazlar	3	294 MW
49)	Şişecam Topluluğu	2	285 MW
50)	Aliağa Çakmaktepe Enerji Üretim A.Ş.	1	268 MW
51)	Kipaş Holding Enerji Grubu	10	264 MW
52)	Bosen Enerji Elektrik Üretim	1	264 MW
53)	Petkim Petrokimya Holding A.Ş.	2	247 MW
54)	Boydak Enerji Üretim ve Ticaret A.Ş.	12	246 MW
55)	Fernas Enerji	8	244 MW
56)	Turcas Elektrik Üretim A.Ş.	2	242 MW
57)	Age Enerji	3	241 MW
58)	Türkerler Holding Enerji Grubu	8	241 MW
59)	Akfen Holding Enerji Grubu	16	229 MW
60)	Karadeniz Holding Enerji Grubu	4	205 MW
61)	Naksan Plastik ve Enerji Sa. ve Tic. A.Ş.	4	193 MW
62)	Turkey Şeker Fabrikaları A.Ş.	23	187 MW
63)	Dost Enerji Üretim	4	185 MW
64)	Tektuğ Elektrik Üretim A.Ş.	9	180 MW
65)	Kalyon İnşaat Enerji Grubu	5	173 MW
66)	Enda Enerji Holding	13	162 MW
67)	Yeşilyurt Enerji Elektrik Üretim A.Ş.	1	158 MW
68)	Yıldırım Enerji Holding A.Ş.	3	148 MW
69)	Odaş Enerji	3	148 MW
70)	Ece Tur Şirketler Grubu	2	144 MW
71)	Alto Holding Enerji Grubu	2	144 MW
72)	American Edison Mission Energy	1	144 MW
73)	Rönesans Holding Enerji Grubu	6	143 MW
74)	Can Enerji Entegre Elektrik Üretim A.Ş.	3	143 MW
75)	Aksa Akrilik Kimya Sanayii A.Ş.	1	143 MW
76)	Manisa Organize Sanayi Bölgesi Enerji Elektrik Üretim	1	140 MW
77)	Bades Elektrik Üretim A.Ş.	1	136 MW
78)	Doğan Enerji Grubu	2	127 MW
79)	Ataer Enerji Elektrik Üretim A.Ş.	1	125 MW
80)	Palmet Enerji A.Ş.	2	122 MW
81)	Statkraft Enerji A.Ş. (Norveç kamu kuruluşu)	2	122 MW
82)	Özdoğan Enerji A.Ş.	1	122 MW
83)	Acarsoy Enerji Elektrik Üretim	2	118 MW
84)	FC Enerji Elektrik Üretim	3	117 MW
85)	Ünal Şirketler Grubu	3	112 MW
86)	Ağaoğlu Enerji Grubu	5	110 MW
87)	Arsan Group	7	110 MW
88)	Zafer Şirketler Grubu	3	104 MW
89)	Göltaş Enerji Elektrik Üretim A.Ş.	1	102 MW
90)	Kardemir Demir Çelik Fabrikaları	2	99 MW
91)	MÖN İnşaat Enerji Grubu	3	99 MW
92)	Aslancık Elektrik Üretim A.Ş.	1	98 MW
93)	Gaziantep OSB Elektrik Üretim A.Ş.	2	97 MW
94)	ITC Katı Atık Enerji Üretim A.Ş.	9	96 MW
95)	Energo Pro	3	93 MW

96)	Melike Group Melike Tekstil	5	90 MW
97)	Çanakçı HES Elektrik Üretim A.Ş.	2	89 MW
98)	Erdem Holding	2	87 MW
99)	Ortadoğu Enerji	4	84 MW
100)	Kale Enerji Üretim	3	82 MW
101)	Ado Enerji	8	82 MW
102)	Yılsan Yatırım Holding Enerji Grubu	5	80 MW
103)	Küçükler Holding A.Ş.	9	78 MW
104)	Batıçim Batı Enerji Elektrik Üretim A.Ş.	4	78 MW
105)	Edincik Enerji Üretim A.Ş.	1	77 MW
106)	Tekno Şirketler Grubu	8	74 MW
107)	Orya Enerji Elektrik Üretim A.Ş.	1	74 MW
108)	Yüksel Holding Enerji Grubu	1	74 MW
109)	Peker Enerji A.Ş.	3	74 MW
110)	Aksu Grup	3	73 MW
111)	Sancak Holding Enerji Grubu	3	70 MW
112)	MB Holding Enerji Grubu	4	68 MW
113)	Çebi Enerji	1	64 MW
114)	GSD Holding Enerji Grubu	1	61 MW
115)	Uğur Enerji Üretim A.Ş.	1	60 MW
116)	Eskişehir Endüstriyel Enerji Elektrik Üretimi A.Ş.	1	59 MW
117)	Çalık Enerji	2	57 MW
118)	Elbi Enerji A.Ş.	6	55 MW
119)	Yıldızlar Enerji Elektrik Üretim A.Ş.	3	54 MW
120)	ABK Enerji Elektrik Üretim	3	53 MW
121)	Demiryürek Elektrik	2	52 MW
122)	Polat Elektrik Üretim A.Ş.	1	51 MW
123)	Erciyas Holding Enerji Grubu	1	50 MW
124)	Kayseri Organize Sanayi Bölgesi	1	50 MW
125)	Yıldırım Grup Enerji Grubu	2	50 MW
126)	Çerkezköy Enerji Elektrik Üretimi A.Ş.	1	50 MW
127)	Akdenizli Elektrik Üretim A.Ş.	1	49 MW
128)	Kibar Holding Enerji Grubu	1	48 MW
129)	Özbolat Enerji Grubu	1	48 MW
130)	Kılıç Enerji Üretim A.Ş.	2	47 MW
131)	Entek Enerji Teknolojileri San. ve Tic. Ltd. Şti.	2	47 MW
132)	Akbaş Holding Enerji Grubu	2	45 MW
133)	Özkoyuncu Madencilik Enerji Grubu	2	45 MW
134)	Are Elektrik Üretim	1	45 MW
135)	Kayı Enerji	4	45 MW
136)	Beşiktepe Üretim ve Ticaret	1	44 MW
137)	Karesi Enerji	1	44 MW
138)	Marmara Pamuklu Mensucat	1	44 MW
139)	Fetaş Fethiye Enerji ve Ticaret A.Ş.	2	42 MW
140)	Melet Enerji Elektrik Üretim ve Tic. A.Ş.	1	42 MW
141)	Mina Group Enerji Grubu	1	42 MW
142)	Akça Enerji Üretim A.Ş.	3	42 MW
143)	Nurol Enerji Üretim ve Pazarlama A.Ş.	2	42 MW
144)	Elite Elektrik Üretimi A.Ş.	2	41 MW
145)	Bursa Temiz Enerji Elektrik Üretim Sanayi ve Ticaret A.Ş.	1	41 MW
146)	Boyut Grup Enerji Ltd. Şti.	4	39 MW

147)	Greeneco Enerji Elektrik Üretim A.Ş.	2	38 MW
148)	Bakras Enerji Elektrik Üretim ve Tic. A.Ş.	1	38 MW
149)	Nokta Yatırım Holding Enerji Grubu	2	38 MW
150)	Pancar Elektrik Üretim A.Ş.	1	38 MW
151)	Armahes Elektrik Üretim A.Ş.	1	38 MW
152)	Bilkent Holding Enerji Grubu	1	37 MW
153)	Murat HES Enerji Elektrik Üretim ve Tic. A.Ş.	1	36 MW
154)	Tesla Enerji A.Ş.	2	35 MW
155)	Hayat Kimya Sanayi A.Ş.	1	35 MW
156)	Kardemir Haddecilik ve Elektrik Üretim LTD. ŞTİ.	2	35 MW
157)	Koçoğlu İnşaat Enerji Grubu	3	34 MW
158)	Adalı Holding Enerji Grubu	2	33 MW
159)	Kayseri Şeker Fabrikası	3	33 MW
160)	2M Enerji Üretim A.Ş.	3	33 MW
161)	Global Enerji Elektrik Üretimi	2	32 MW
162)	Kinesis Enerji	1	30 MW
163)	Ceykar Elektrik Üretim A.Ş.	1	30 MW
164)	Akkanat Holding Enerji Grubu	1	28 MW
165)	Bükköy Madencilik Turizm İnşaat Elektrik Üretim A.Ş.	1	28 MW
166)	Ataser Elektrik Üretim	1	27 MW
167)	Kıvanç Enerji Elektrik Üretim A.Ş.	2	27 MW
168)	Tamyeli Enerji Yatırım Üretim ve Tic. A.Ş.	1	27 MW
169)	T Dinamik Enerji Sanayi ve Dış Tic. A.Ş.	5	27 MW
170)	Şahinler Holding Enerji Grubu	1	26 MW
171)	Aquila Hydropower Invest	5	26 MW
172)	Redaş Elektrik Üretim	1	26 MW
173)	Kastamonu Entegre Ağaç San. ve Tic. A.Ş.	1	26 MW
174)	Prestij Enerji Üretim Sanayi ve Tic. A.Ş.	1	25 MW
175)	Bayburt Enerji Üretim ve Tic. A.Ş.	2	25 MW
176)	Delta Yatırım Holding A.Ş.	2	25 MW
177)	Enerjeo Kemaliye Enerji Üretim A.Ş.	1	25 MW
178)	Karel Enerji Elektrik Üretim A.Ş.	2	24 MW
179)	Çevik Enerji Grubu	1	24 MW
180)	TAV Havalimanları Holding A.Ş.	3	23 MW
181)	MMK Metalurji A.Ş.	2	23 MW
182)	Okkayası Elektrik Üretim	1	23 MW
183)	Yıldız Sunta MDF	1	23 MW
184)	Hidro Kontrol Elektrik Üretim	1	22 MW
185)	BM Holding	2	22 MW
186)	Berk Enerji Üretimi A.Ş.	1	22 MW
187)	Bükor Elektrik Üretim A.Ş.	2	22 MW
188)	Miran Enerji Elektrik Üretim	1	21 MW
189)	Bayraktar İnşaat Enerji Grubu	2	21 MW
190)	Zeynep Enerji Üretim A.Ş.	1	20 MW
191)	Boreas Enerji Üretim Sistemleri A.Ş.	1	20 MW
192)	Aytemiz Petrol A.Ş.	2	20 MW
193)	Ortadoğu Rulman Sanayi	1	20 MW
194)	ADV Elektrik Üretim	1	20 MW
195)	Temmuz Elektrik Üretim Ltd. Şti.	1	20 MW
196)	Abalıoğlu Holding Enerji Grubu	1	20 MW
197)	Kıroba Elektrik Üretim A.Ş.	1	20 MW

198)	As-Ka Grup Enerka Enerji	1	19 MW
199)	Tırsan Enerji Elektrik Üretim A.Ş.	1	19 MW
200)	Ati İnşaat Enerji	1	19 MW
201)	Aksu Enerji ve Ticaret A.Ş.	4	19 MW
202)	Saf Enerji Elektrik Üretim	2	19 MW
203)	YPM Elektrik Üretim	1	19 MW
204)	Derya Elektrik Üretim ve Tic. A.Ş.	1	19 MW
205)	Vira Elektrik Üretim	1	19 MW
206)	Bahser Enerji Elektrik Üretim	2	18 MW
207)	Kayseri ve Civarı Elektrik Türk A.Ş.	9	18 MW
208)	ÖDF Yılmazlar İnşaat Enerji Grubu	1	18 MW
209)	Derin Enerji Üretim San. ve Tic. A.Ş.	1	18 MW
210)	Aycan Enerji Üretim	2	17 MW
211)	Tek İmaş A.Ş.	1	17 MW
212)	Kadooğlu Enerji	1	17 MW
213)	Enfaş Enerji Elektrik Üretim AŞ	3	17 MW
214)	CG Enerji Elektrik Üretimi	1	17 MW
215)	Nuh Enerji Elektrik Üretim A.Ş.	1	17 MW
216)	Konar Enerji	4	17 MW
217)	Tekfen Holding A.Ş.	2	17 MW
218)	CFC Elektrik Enerjisi	1	17 MW
219)	Avcılar Enerji Elektrik Üretim	1	17 MW
220)	Okman Enerji Elektrik Üretim	1	16 MW
221)	Reis Grubu	2	16 MW
222)	Maraş Enerji Yatırımları A.Ş.	2	16 MW
223)	Okan Holding Enerji Grubu	2	16 MW
224)	Kıyı Enerji Elektrik Üretim	1	15 MW
225)	Yumrutepe Enerji	1	15 MW
226)	Kandil Elektrik Üretim	1	15 MW
227)	İlcan Elektrik Üretim A.Ş.	1	15 MW
228)	Moği Elektrik Enerji Üretim	2	14 MW
229)	Molu Enerji Üretim A.Ş.	3	13 MW
230)	Mustafa Modoğlu Holding Enerji Grubu	6	13 MW
231)	Kais Elektrik Üretim A.Ş.	1	13 MW
232)	Omega Enerji ve Yatırım A.Ş.	2	12 MW
233)	Rea Elektrik Üretim	1	12 MW
234)	Çamlıkaya Enerji Üretim ve Tic. A.Ş.	2	12 MW
235)	Ahmetli HES Elektrik Üretim	1	12 MW
236)	Akgün Enerji Üretim A.Ş.	1	11 MW
237)	Gaziler Enerji A.Ş.	1	11 MW
238)	Cansu Elektrik Üretim A.Ş.	1	11 MW
239)	Tetico A.Ş.	2	11 MW
240)	Mostar Elektrik Enerji Üretim	5	10 MW
241)	Tayfurlar Enerji Elektrik Üretim A.Ş.	1	10 MW
242)	Süper Elektrik Üretim A.Ş.	1	10 MW
243)	Vasfi Enerji Elektrik Üretim	1	9,76 MW
244)	Sakarya Büyükşehir Belediyesi	1	9,60 MW
245)	Suay Enerji A.Ş.	1	9,60 MW
246)	Meral Elektrik Üretim A.Ş.	1	9,33 MW
247)	Sukom Enerji	1	9,18 MW
248)	Kutup Enerji Elektrik Üretim	1	9,05 MW

249)	Türkay Alternatif Enerjiden Elektrik Üretim	1	9,00 MW
250)	Astor enerji	1	8,97 MW
251)	YBT Enerji	3	8,81 MW
252)	Entar Enerji	1	8,00 MW
253)	MTN Enerji Elektrik Üretim A.Ş.	1	8,00 MW
254)	Zen Enerji	1	8,00 MW
255)	Citus Power	1	7,92 MW
256)	Çağlar Enerji Elektrik Üretim	1	7,80 MW
257)	Amasya Şeker Fabrikası A.Ş.	1	7,76 MW
258)	Alp Elektrik	1	7,50 MW
259)	NKD Elektrik Enerji Üretim Ltd. Şti.	1	7,20 MW
260)	Verusa Holding Enerji Grubu	1	7,19 MW
261)	Novtek Enerji	2	7,06 MW
262)	Beşiktaşlar Enerji	1	6,98 MW
263)	Biem Enerji Üretim	1	6,93 MW
264)	Gün-Taş Enerji Ektrik Üretim A.Ş.	1	6,77 MW
265)	Şirikçioğlu Elektrik Üretim A.Ş.	3	6,51 MW
266)	Üner Enerji Elektrik Üretim	1	6,40 MW
267)	Üründül Enerji	1	6,24 MW
268)	İskele Elektrik Üretim A.Ş.	1	6,12 MW
269)	Asunim Group	1	6,00 MW
270)	Usluel Grup	1	5,80 MW
271)	Humartaş Yapı ve Enerji A.Ş.	1	5,77 MW
272)	Ahmet Hakan Elektrik Üretim A.Ş.	1	5,42 MW
273)	Dünya Enerji Elektrik Üretim A.Ş.	1	5,24 MW
274)	EkoRE Enerji	1	5,00 MW
275)	Halk Enerji	1	4,90 MW
276)	Fit Enerji Üretim ve Yatırım A.Ş	3	4,89 MW
277)	Portsan Şirketler Grubu	2	4,86 MW
278)	Med Enerji A.Ş.	1	4,40 MW
279)	Afyon Enerji ve Gübre Üretim	1	4,02 MW
280)	Isparta Elektrik Üretim	2	3,84 MW
281)	Dpe Solar	1	3,00 MW
282)	Genç Enerji Üretim	1	3,00 MW
283)	Afyonkarahisar İl Özel İdaresi	1	2,76 MW
284)	Mikail Enerji Grubu	1	2,57 MW
285)	Berrak Su Enerji Üretim İnş. ve Tic. A.Ş.	1	2,49 MW
286)	DSİ - Devlet Su İşleri	2	2,18 MW
287)	RNT Enerji Ltd. Şti.	1	2,00 MW
288)	Rofa Solar	1	2,00 MW
289)	Özyılmaz Enerji	1	1,96 MW
290)	Galata Renova Enerji Sanayi Ticaret A.Ş.	2	1,77 MW
291)	Masfen İnşaat Enerji San. Tic. A.Ş.	1	0,96 MW
292)	Denizli Elektrik Üretim A.Ş.	1	0,92 MW
293)	Megawatt Enerji	1	0,36 MW
294)	3S Kale Enerji A.Ş.	0	0,00 MW
295)	Akın Holding Enerji Grubu	0	0,00 MW
296)	Akkuyu NGS A.Ş.	0	0,00 MW
297)	Bara Enerji	0	0,00 MW
298)	DC Hidro Enerji Üretim A.Ş.	0	0,00 MW
299)	Emba Elektrik Üretim A.Ş.	0	0,00 MW

300)	HCZ Enerji Elektrik Üretim	0	0,00 MW
301)	RES Anatolia Holding A.Ş.	0	0,00 MW
302)	Sara Enerji	0	0,00 MW
303)	Soyak Enerji	0	0,00 MW
304)	Tenaga Nasional Berhad (TNB) (Malezya kamu kuruluşu)	0	0,00 MW

Source: Enerji Atlası (http://www.enerjiatlasi.com/firma/)

APPENDIX B

Table 4: Interview Dates

No	Interviewees	Dates	Places
1	Firm #1	July 11, 2018	Ankara, Turkey
2	Firm #2	July 12, 2018	Ankara, Turkey
3	Firm #3	July 12, 2018	Ankara, Turkey
4	Firm #4	July 13, 2018	Ankara, Turkey
5	Firm #5	July 16, 2018	Ankara, Turkey
6	Firm #6	July 16, 2018	Ankara, Turkey
7	Firm #7	July 17, 2018	Ankara, Turkey
8	Firm #8	July 27, 2018	Ankara, Turkey
9	Firm #9	July 30, 2018	Ankara, Turkey
10	PI #1	July 09, 2018	Ankara, Turkey
11	PI #2	July 10, 2018	Ankara, Turkey
12	PI #3	July 11, 2018	Ankara, Turkey
13	PI #4	July 16, 2018	Ankara, Turkey
14	NGO #1	July 12, 2018	Ankara, Turkey
15	NGO #2	July 13, 2018	Ankara, Turkey

APPENDIX C

Interview Questions

Interview Questions for Private Companies

Premise: Especially starting from 2000s, there has been a privatization and free-market competition process in electricity market in Turkey. The law 4446 provided an environment for making privatization successful, with the following lines:

a. Public property could be a subject of private law
b. Franchising in electricity sector became legal and a subject of private law
c. International investors in the sector could appeal to arbitral tribunal
d. The law limited State of Council's (*Danıştay*) role[106]

1. What was/were the main reason/s of the beginning of the process?

2. Did all or most of the companies in the sector support the enactment process?

If "YES," how did they support? By using which tools?
If "NO," what was the reason for this amendment?

a. What other private/public organizations supported the enactment process?

3. Do you think that the private sector could influence in the legal developments? Were the demands and needs of the private sector taken in the consideration during the enactment process?

If "YES," how? With which tools?

4. Does the Ministry of Energy and Natural Resources (MENR) play a key role in liberalization process of the market and/or in the relationship with the private sector?

If "YES," how? With which tools? What is the significance of MENR for electricity generation companies? For your company?

a. Does Energy Market Regulatory Authority (EMRA) play a key role in liberalization process of the market and/or in the relationship with the private sector?

If "YES," how? With which tools? What is the significance of EMRA for electricity generation companies? For your company?

5. Are there any codes/articles/regulations that you desire to cancel, amend, or add?

a. Have MENR and/or EMRA rejected your demands so far?

If "YES," how? Why do you think that these institutions rejected your demand? And which institutions, groups, and/or people played a significant role in the rejection process?

b. Are there any agents/players who want change in existing codes/articles/regulations in energy market?

[106] Prior to the law, the Constitutional Court and *Danıştay* (as veto players) were intervening in the privatization and liberalization of the sector.

If "YES," who are they? Public or private institutions? If there are some companies, which type of companies are they?

c. Which public institutions, local/foreign companies, interest groups have the most effective role in meeting the amendment requests? Bureaucracy or entrepreneurs?

6. How do you communicate with related public institutions? What tools are you using? How do you deliver your problems, needs and requests to public institutions?

a. Have you ever done a workshop to determine electricity generation sector needs and to submit these to public authorities?

b. Has the government/state provided in-kind and financial support to the sector?

c. To what extent do the government/state supports affect your electricity generation rate of your company?

d. Which criteria do you consider to get into/invest in the electricity generation market?

7. What were the most important difficulties that your company faced with when your company got into the sector? Do they continue? If there have been some changes about difficulties, how have they been changed?

a. There is a rule "If a firm is in the transmission sector, this firm cannot engage in generation and distribution sectors" Do you think this rule is a difficulty for the private companies and your company?

b. Is there any code, article and/or regulation that makes new companies get into the sector?

8. Do you have any investments in renewable energy sector? Or do you plan to do? Why?

9. Considering the subjects of Turkey**'s energy security, are there any risks/uncertainties that may influence the electricity generation market conditions? What are they?**

a. If there are any, which policy tools and political approach should be followed by the government/state?

10. Within the scope of Turkey**'s energy security, what are the most significant factors that determine state-private sector relationship?**

11. Is the business lucrative for your company?
If "NO", what will happen next? What is your company's future plan?

Interview Questions for NGOs

Premise: Especially starting from 2000s, there has been a privatization and free-market competition process in electricity market in Turkey. The law 4446 provided an environment for making privatization successful, with the following lines:

a. Public property could be a subject of private law
b. Franchising in electricity sector became legal and a subject of private law
c. International investors in the sector could appeal to arbitral tribunal
d. The law limited State of Council's (*Danıştay*) role

1. What was/were the main reason/s of the beginning of the process?

2. Did all of or most of the companies in the sector support the enactment process?
If "YES," how did they support? By using which tools?
If "NO," what was the reason for this amendment?

a. What other private/public organizations supported the enactment process?

3. Do you think that the private sector could influence in the legal developments? Were the demands and needs of the private sector taken in the consideration during the enactment process?
If "YES," how? With which tools?

4. Does the Ministry of Energy and Natural Resources (MENR) play a key role in liberalization process of the market and/or in the relationship with the private sector?
If "YES," how? With which tools? What is the significance of MENR for electricity generation companies? For your company?
a. Does Energy Market Regulatory Authority (EMRA) play a key role in liberalization process of the market and/or in the relationship with the private sector?
If "YES," how? With which tools? What is the significance of EMRA for electricity generation companies? For your members?

5. Are there any codes/articles/regulations that your members desire to cancel, amend, or add?
a. Have MENR and/or EMRA rejected your demands so far?
If "YES," how? Why do you think that these institutions rejected your demand? And which institutions, groups, and/or people played a significant role in the rejection process?
b. Are there any agents/players who want change in existing codes/articles/regulations in energy market?
If "YES," who are they? Public or private institutions? If there are some companies, which type of companies are they?
c. Which public institutions, local/foreign companies, interest groups have the most effective role in meeting the amendment requests? Bureaucracy or entrepreneurs?

6. How do you communicate with related public institutions? What tools are you using? How do you deliver your members' problems, needs and requests to public institutions?
a. Have you ever done a workshop to determine electricity generation sector needs and to submit these to public authorities?
b. Has the government/state provided in-kind and financial support to the sector? *

c. To what extent do the government/state supports affect your electricity generation rate of your members?

d. Which criteria do your members consider to get into/invest in the electricity generation market?

7. What were the most important difficulties that your members faced with when they got into the sector? Do the difficulties continue? If there have been some changes about difficulties, how have they been changed?

a. There is a rule "If a firm is in the transmission sector, this firm cannot engage in generation and distribution sectors" Do you think this rule is a difficulty for your members?

b. Is there any code, article and/or regulation that makes new companies get into the sector?

8. Considering the subjects of Turkey's energy security, are there any risks/uncertainties that may influence the electricity generation market conditions? What are they?

a. If there are any, which policy tools and political approach should be followed by the government/state?

9. Within the scope of Turkey's energy security, what are the most significant factors that determine state-private sector relationship?

Interview Questions for Public Institutions

Premise: Especially starting from 2000s, there has been a privatization and free-market competition process in electricity market in Turkey. The law 4446 provided an environment for making privatization successful, with the following lines:

a. Public property could be a subject of private law
b. Franchising in electricity sector became legal and a subject of private law
c. International investors in the sector could appeal to arbitral tribunal
d. The law limited State of Council's (*Danıştay*) role

1. What was/were the main reason/s of the beginning of the process?

2. Did all of or most of the companies in the sector support the enactment process?
If "YES," how did they support? By using which tools?
If "NO," what was the reason for this amendment?

a. What other private/public organizations supported the enactment process?

3. Do you think that the private sector could influence in the legal developments? Were the demands and needs of the private sector taken in the consideration during the enactment process?
If "YES," how? With which tools?

4. Does the Ministry of Energy and Natural Resources (MENR) play a key role in liberalization process of the market and/or in the relationship with the private sector?
If "YES," how? With which tools? What is the significance of MENR for electricity generation companies? For your company?
a. Does Energy Market Regulatory Authority (EMRA) play a key role in liberalization process of the market and/or in the relationship with the private sector?
If "YES," how? With which tools? What is the significance of EMRA for electricity generation companies?

5. Are there any codes/articles/regulations that your institution, private sectors and NGOs desire to cancel, amend, or add?
a. Have MENR and/or EMRA rejected their demands so far?
If "YES," how? Why did this public institutions reject their demand? And, which institutions, groups, and/or people played a significant role in the rejection process?
b. Are there any agents/players who want change in existing codes/articles/regulations in energy market?
If "YES," who are they? Public or private institutions? If there are some companies, which type of companies are they?
c. Which public institutions, local/foreign companies, interest groups have the most effective role in meeting the amendment requests? Bureaucracy or entrepreneurs?

6. How do you communicate with private sector? What tools are you using? How do you get their problems, needs and requests?
a. Have private sector and NGOs ever done a workshop to determine electricity generation sector needs and to submit these to public authorities?
b. Has the government/state provided in-kind and financial support to the sector? *

7. Considering the subjects of Turkey**'s energy security, are there any risks/uncertainties that may influence the electricity generation market conditions? What are they?**

a. If there are any, which policy tools and political approach should be followed by the government/state?

8. Within the scope of Turkey**'s energy security, what are the most significant factors that determine state-private sector relationship?**