IV. TRADE POLICIES BY SECTOR

(1) OVERVIEW

1. Since Turkey's last TPR in 1998, the contributions of manufacturing and services sectors to the economy have continued to increase, while the share of agriculture has fallen. In accordance with Turkey's long-term strategy for the period 2001-23, this will be intensified as an export-oriented, technology-intensive production structure is to be pursued, aimed at increasing the production of high-value-added manufactured goods and services at the expense of agriculture (Chapter II(3)).

2. Tariff protection and government support to agriculture have continued to insulate farmers from foreign competition and world market price signals: tariff protection in agriculture (major division 1 of ISIC, Revision 2) remains relatively high, averaging 25% in 2003 (down from 26% in 1998). Turkey is in the process of implementing a wide-ranging 2001-05 programme to restructure the sector, so as to reduce the big burden of agricultural support on the Turkish economy. Some of the potentially most production-distorting measures in the sector (e.g. administered output prices, output and input subsidies) are being phased out and replaced by a less distortionary direct support system to farmers. Moreover, the Government aims to reduce its direct involvement in production, processing, and marketing.

3. Several state economic enterprises continue to dominate mining and energy activities in Turkey; firms and consumers face very high electricity and natural gas prices, which affect the competitiveness of the economy. With the general objective of improving the functioning of the sector and reducing costly government transfers, the Turkish energy industry is a primary target of the privatization programme. Under recently enacted laws, the electricity and natural gas markets are being liberalized and made more efficient. Tariff protection for the sector is relatively low (0.2% on average, down from 2% in 1998).

4. The Turkish Government continues to play an important role in the manufacturing sector. Public enterprises have significant shares in industries, such as iron and steel, chemicals, petrochemicals, tobacco, and beverages. Furthermore, a complex system of generous state aids to manufacturers remains in place. The local-content rate in the automobile industry, albeit not legally required, has increased since Turkey's previous TPR. Tariff protection of manufactured products averages 11.1% in 2003 (down from 11.6% in 1998); relatively high rates still apply to some processed food products, with tariffs ranging up to 227.5% (Table AIV.1). In general, in the absence of incentives, the mixed structure of the tariff does not encourage investment in industries producing semi-finished goods.

5. Turkey has taken measures to address some of the structural problems in certain services activities, notably banking and telecommunications, where independent regulators have been appointed and the scope of the liberalization and privatization process has been extended. Nevertheless, several state-owned companies (such as Turk Telekom, Halk Bank, and Turkish Airlines) continue to dominate services activities, and still operate under monopoly, or hold exclusive rights in several branches of the sector. Liberalization of services should improve the efficiency of other economic activities and the competitiveness of Turkey's exports, especially by reducing costs related to banking, telecommunications, and transport. Under the General Agreement on Trade in Services (GATS), Turkey maintains some MFN exemptions (Table AIV.2); it has made commitments in several service categories (Table AIV.3).

(2) AGRICULTURE AND RELATED ACTIVITIES

(i) Main features

6. Agriculture is a dominant sector in the Turkish economy: despite the decline in its contribution to GDP from 17.5% in 1998 to 11.7% in 2002, it still employs over 34% of the population.[1] Foreign investment in agriculture amounted to TL 238 trillion in 2002, less than 2% of total foreign investment in Turkey. The most common type of organization in the sector is cooperatives. Nine types of cooperatives are active, with 8.8 million members. There are cooperatives in irrigation, fisheries, and sugar beet production, as well as in agricultural sales. The establishment of livestock unions is a new concept. Producer organizations, such as milk producer unions, irrigation unions, and service unions for villages, excluding agricultural cooperatives and unions, are led by Governors of provinces or districts, generally under the control of the Government

7. Turkey is not only self-sufficient in food, but also ranks among the top ten food exporters in the world.[2] It has more arable land than any West European country, and 36% of its 78 million hectares are cultivated. Crops contribute about 65% of total agricultural production. The main crops are cereals (wheat, barley, and maize), and fruits and vegetables, (for example potatoes, dry onion, and cotton). Crop production is highly dependent on climate conditions; productivity is relatively low.

8. The livestock sub-sector, consisting mainly of cattle, calves, buffalo, camels, sheep, lambs, goats, and pigs, includes traditional and commercial activities. Turkey is implementing an animal identification system, and around 7 million bovine animals out of more than 10 million have been registered.[3] The main objective is to increase livestock production in order to provide adequate and balanced nutrition for the population. Total meat production decreased from 532,504 tons in 1998 to 491,497 tons in 2000, while milk production remained constant at around 10 million tons in the same period.

9. Despite the great potential of fishing activities in Turkey, their contribution to the economy is low mainly because of lack of modern vessels, and inefficient catching and processing methods. Fisheries production, including aquaculture[4], increased from 543,900 tons in 1998 to 627,847 tons in 2002; it is composed largely of marine fish (78% of the total in 2002), aquaculture (10%), and freshwater fish (7%). Some of the main species caught are Anchovy, mackarel mullet, hake, sardine, crustaceans, grey mullet, pilchard, and common carp. The Black Sea is the main production area, followed by the Mediterranean Sea. High-sea fishing has diminished considerably due to pollution, ecological changes, and irrational use of resources.

10. Forests account for 20.7 million hectares or 26.6% of the total area of Turkey. Timber is the main forest product. Coniferous trees represent 54.4% of the forests, the remainder being broad-leaved trees. Forests in Turkey are classified in terms of quality and purpose: protection forests, national parks, and production forests. Biological diversity is high with 9,000 plant species, 3,000 of which are endemic. Over the past 15 years, an annual average of 7.5 million cubic meters of industrial

[1] The share of agriculture in total employment even increased due to the recent economic crisis, which pushed many people who lost their jobs to migrate back to rural areas (OECD, 2002b).

[2] Agricultural commodities represented 6.8% of total exports in 2001. Processed agricultural products contributed a further 4.6% to total exports in the same year (OECD, 2002a).

[3] European Commission (2002).

[4] Established in the 1980s with state support, aquaculture production increased from around 3,075 tons in 1986 to over 61,165 tons in 2002, and its contribution to total fish supply in Turkey rose from 0.5% to 10%. Rainbow trout, sea bass, sea bream, and bluefin tune are the main species cultured. Small numbers of carp, mussels and shrimp are also farmed.

wood and 9 million cubic meters of firewood have been produced. There are 18,358 forest villages, and forest villagers make up 49.5% of the rural population and 14.7% of the total population of Turkey. About 99.9% of forest lands and resources belong to the State; the area of private forests is only about 20,000 ha. Incomplete cadastral works, deficiency in specialized technical staff and workers, lack of comprehensive site inventory, uncertainties in management targets, delays in regeneration works, and insufficient reafforestation due to inadequate financing constitute some of the main problems in the sub-sector.

(ii) Policy developments

11. The Ministry of Agriculture and Rural Affairs (MARA) is responsible for the overall running of the sector, including coordinating and carrying out research and extension services, assisting agricultural cooperatives, and providing infrastructure. Turkey's key policy objectives for agriculture are, *inter alia*: increasing producers' welfare, promoting rural development, ensuring food security and safety, and increasing productivity, quality, and competitiveness. For these purposes, various measures are implemented; some of them have been revised recently.

12. The policies of aids and support to agriculture, in place at the time of the last TPR of Turkey, have resulted in over-production of many agricultural commodities, especially hazelnuts and tobacco, and in the constant fall in agricultural productivity over the past decade.[5] Moreover, the policies have failed to relieve poverty for subsistence farmers.[6] The Government's response to this is contained in the 2001-05 Agricultural Reform Implementation Project (ARIP), launched on 12 July 2001, with the support of the World Bank. The project has been designed in accordance with the EU accession requirements. The main aims of ARIP are to: phase out price support and credit subsidies; withdraw the State from direct involvement in production, processing, and marketing of crops; and introduce a less distortionary direct income support (DIS) system to farmers, based on land rather than on inputs or output. At the same time, ARIP is designed to mitigate the potential short-term adverse impact of subsidy removal and facilitate the transition to efficient production patterns.

13. ARIP has four components: (i) DIS payments; (ii) farmer transition payments; (iii) restructuring of the Agricultural Sales Co-operatives (ASC) and their Unions (ASCU); and (iv) improvement of support services. The first component provides for an annual DIS payment per hectare to all farmers to cover the reduction in income associated with the removal of administered prices and input subsidies. In 2001, the National Farmer Registry (NFR) system was initiated.[7] All farmers owning or cultivating land and showing appropriate documentation could register.[8] At the end of 2002, 2.6 million farmers had registered out of a total of 4 million potential beneficiaries, and about 11.8 million hectares of farmland (about 50% of the total) had been registered. In 2001, the payment of DIS subsidies began for registered farmers[9], while most input-based and output-based subsidies began to be phased out (Table IV.1). The rate of the DIS payment increased by 35% to TL 135 million per hectare, and the area limit was raised from 20 to 50 hectares per farmer.[10] DIS has become the major support instrument in Turkey's agriculture, accounting for about 75% of the total

[5] For details on the policies, see WTO (1998).

[6] OECD (2002b).

[7] Expenditure for designing and implementing the NFR system increased by about 14% to TL 931 billion in 2002 (OECD, 2003).

[8] All crops are eligible, the only eligibility criteria being that the land be cultivated. European Commission (2002).

[9] For four provinces, the DIS payments began in 2000 under a pilot project. Moreover, in 2002, DIS payments covered not only the amounts for the whole year but also the amounts that were disbursed in 2001 because of a delay in the implementation of the programme (OECD, 2002).

[10] OECD (2003).

support provided to agricultural producers in 2002 in monetary terms. Approximately TL 2 quadrillion has been allocated in the 2003 budget for DIS payments.[11] Identification committees are still working on uncadastred lands and about 2.7-2.8 million farmers are expected to be registered under the NFR system.

Table IV.1
Agricultural reform: selected support measures, 1999-03
(US$ million)

	1999	2000	2001	2002	2003
Credit subsidy	956	130	182	0	0
Fertilizer	183	141	51	0	0
Budget transfer to SEEs (duty loss and equity)	261	286	201	138	131
Deficits of state economic enterprises	2,213	1,354	676	355	..
Cotton and oilseed premium	205	240	199	58	125
ASCU	450	560	0	0	0
Farmer transition	0	0	0	0	20
Direct income support (DIS) payments	0	0	58	628	1,190
Total	**4,268**	**2,711**	**1,367**	**1,179**	**..**

.. Not available.

Note: The table includes only support measures affected by the ARIP. Support to ASCUs is being provided through direct credit from the revolving Support Price Stabilization Fund not included in the budget.

Source: OECD (2002), *Economic Surveys — Turkey,* December, Paris.

14. The objective of the second component of ARIP is to provide farmers with a one-off transfer to help them in the transition to alternative and more profitable activities as governmental support is reduced. The most serious problems are concentrated in tobacco and hazelnut production, which are a heavy burden on the fiscal budget because of excess supply and the Government's purchases of excess supply. For tobacco, the transition is expected to be faster due to the Tobacco Law adopted in January 2002. However, the latest estimate is that application by eligible tobacco growers was 10% of the total planned target for the transition period. In response, in April 2003, the authorities increased the incentives for the transition period and reopened the deadline for applications. The cultivated area for hazelnuts is set to decrease by about 57,000 hectares in 13 provinces. In total, the financing of the second component of ARIP was fixed at US$186 million for the 2001-05 period, using a World Bank loan of US$180.7 million plus US$5.3 million of domestic funds. It is distributed as follows: US$156.2 million for hazelnut, US$16.4 million for tobacco, and US$13.3 million for other support programmes. As of June 2003, US$2 million had been spent on this component, of which US$1.8 million were allocated to eligible tobacco growers who applied in 2002.

15. The third component of ARIP aims to provide technical assistance in establishing the Restructuring Board, which will control the ASC/ASCU's operations for the next few years, while they are being restructured. It will also finance severance payments for workers. The ASCUs are being requested to withdraw from crop processing activities and concentrate only on marketing the output of the members of the ASC and on providing them with business services. The reform also envisages the transfer of control of cooperatives to their members, and to enable them to operate in competition with other private firms. Repayments of the credit will flow into a revolving fund (Support and Price Stabilitzation Fund), which will be closed only when ASCUs are able to provide

[11] DIS activities were initiated in May 2003 and applications finished on 29 August.

their own financing.[12] In 2002, from the US$178 million fund available for this component, US$40 million were spent and the number of employees was reduced by 7,561.

16. The fourth component of ARIP finances support services such as advisory, training, and research activities, and is aimed at facilitating farming adjustment and reducing current impediments to higher efficiency and productivity in the agriculture sector. The overall success of ARIP will depend on the extent to which its four interrelated components will be coordinated and implemented so as to reduce the burden of agricultural support in the Turkish economy.

17. Two recent laws complement ARIP: the Sugar Law No. 4634, which came into force on 4 April 2001, and the Tobacco Law No. 4733 of 9 January 2002. The Sugar Law provides for the establishment of a competitive market for beet and sugar. According to the Sugar Law, beet sugar is subject to compulsory reserve stocks[13], and beet purchasing prices are determined between sugar producing companies and farmers. Since the 2002/03 marketing year, sugar prices have been determined freely by the companies. The Turkish Sugar Factories Corporation (TSFAS), an SEE involved in production and marketing of sugar, is to be privatized by the end of 2004. The Sugar Board has been established with the task of administering production quotas (determination, distribution, cancellation, and transfers of quotas among sugar producing companies).[14] Sugar quotas tend to support low-productivity companies that would otherwise go out of business, but seem to run counter to the need to raise competitiveness in the sub-sector.

18. The Tobacco Law ended the practice of administered support prices by the Government through TEKEL, the state monopoly for alcohol, tobacco, and salt, which is also to be privatized in 2003. Purchasing prices are now market determined, and the quota on tobacco production was removed in 2002. The Tobacco, Tobacco Products and Alcoholic Beverages Market Regulatory Authority (TAPDK) was established in 2002 to promote competition in the market. The June 2003 Trade Regulation has liberalized imports of ethyl alcohol and alcoholic beverages.

19. In 2002, most administered prices were abolished. However, the Turkish Grain Board continues to set purchasing prices for cereals before the purchasing campaign; purchasing prices increased by around 36% for tobacco, about 40% for wheat and maize, and 50% for oats (Table IV.2). The purchasing price for sugar beet increased by 48% despite an increase of 9.6% in the production quota to 12.6 million tonnes of sugar beet.[15]

20. Farmers continue to benefit from loans extended at concessional rates. From 30 June 2000, a new credit arrangement in the form of a revolving fund at 37.5% interest rate can be used by ASC/ASCU to purchase selected crops and cereals from producers. The overall amount of the fund is around TL400,000 billion (including the extended credits). The loans are channelled through the state-owned Ziraat Bank (for hazelnuts, cotton and sunflower seeds, figs, raisins, olives and olive oil, etc.). In addition, Ziraat Bank gives credit facilities to fisheries and forestry activities.

[12] OECD (2002b).

[13] Since the 2002/03 marketing year, the Sugar Board has set the compulsory stock level for beet sugar at 2% of about 42,000 tonnes of quota.

[14] The Sugar Board consists of seven members from MIT, MARA, Undersecretariat of Foreign Trade, State Sugar Company, Union of Cooperatives of Sugar Beet Producers, and representatives from two of the biggest sugar companies.

[15] OECD (2003).

Table IV.2
Purchasing prices for cereals, sugar, and tobacco, 2001-02
(TL million per tonne)

Product	2001	2002	Change in TL price, 2001-2002 %
Wheat			
Durum, Anatolian[a]	189	259	37
Durum, other[a]	172	242	40
Hard, white Anatolian[a]	164	230	40
Hard, red Anatolian[a]	164	230	40
White barley[b]	131	150	14
Rye[b]	123	168	37
Oats[b]	123	184	50
Maize[c]	156	219	40
Sugar beet[d]	50	74	48
Tobacco, Black Sea	2,200	3,000	36
GDP deflator 1995 = 100	**2,138**	**3,163**	**48**

a Base prices were raised by TL 2 million per tonne each month for grain purchased from 1 July to 30 September.
b Base prices were raised by TL 1.25 million per tonne each month in July and August and by a further TL 1 million in September.
c Base prices were raised by TL 1.5 million per tonne in October and November.
d On the basis of 16% sugar content, each additional/lower polar (sugar content) level is compensated by a payment/deduction of TL 1 million per tonne.

Source: OECD (2003), *Agricultural Policies in OECD Countries – Monitoring and Evaluation 2003*, Paris.

21. The subsidy on fertilizers, which had been reduced from about 50% to 10-12% of the sale price over 1997-01, was abolished on 21 September 2001.[16] However, to promote wider utilization of certified seeds for various crops (such as hybrid sunflower, soybean, alfalfa, vetch, rice, potatoes, vegetables, and cotton), seeds were provided at subsidized prices (with a subsidy rate of 25% of the seed sale price) during 1985-01.[17] Electrical power used in agriculture (including by poultry producers and for aquaculture) is no longer subsidized. For the operation and maintenance of irrigation schemes by the State Hydraulic Works (DSI), users pay an annual lump sum (negligible fee). Overall, total government expenditure on input subsidies has been reduced by around three-quarters since 1999, despite high inflation levels.[18]

22. Tea growers, affected by pruning requirements designed to limit production, are provided with compensation payments.[19] Livestock incentive payments compensate farmers for the slaughter of animals for sanitary reasons. In addition, in 2000 and 2001, farmers were paid for animals that died as a result of natural disasters.[20] For artificial insemination, payments to farmers in the less developed areas of the country are set at TL 10 million per pregnant cow among their herds, and to those in other areas at TL 5 million.

23. Milk incentive premiums are paid to support dairy husbandry, raise the income level of producers, update related technology, and offer consumers better quality milk and dairy products. A

[16] Fertilizer subsidies were abolished by the Decree No. 2001/2960, published in the *Official Gazette* of 21 September 2001.

[17] In addition, certified seeds for wheat and barley are sold at low prices to state farms.

[18] OECD (2003).

[19] Tea plantations are subject to pruning requirements for ten years (1994-03) as part of a project to control output and improve quality. Compensation payments to tea growers for pruning went up from TL 3,585 billion in 1998 to TL 40,000 billion in 2002.

[20] Aid worth TL 1,248 billion was provided to farmers for their dead animals in 2000 and TL 316 billion in 2001.

support premium of TL20,000 per litre is paid to producers selling milk and related products to processing industries that meet certain requirements, such as the UHT system, and double-walled boiler; and TL40,000 per litre if they are members of the breeders unions (using pedigree animals). The total amount of milk incentive premiums paid to producers was TL 62,252 billion during 1998-02.

24. In 1998, deficiency payments were applied to cotton and olive oil, and in 1999, they applied to cotton, sunflower seed, and soybean. As from 2000, deficiency payments have covered olive oil and canola. These payments amounted to TL186,150 billion in 2002 and are expected to be TL 264,000 billion in 2003. In addition, direct payments were introduced for silk cocoon and mohair in 2002 for TL 1,111 billion.

25. Export subsidies, which are set at 10% to 20% of the export values and between 27% and 100% of the quantities exported, are granted to 16 agricultural or processed agricultural products (18 in 1998) (Table IV.3). Since Turkey's last TPR, export subsidies were eliminated for citrus fruit, tomatoes, milk powder, and potatoes (frozen), and introduced for chocolate and other food preparations, biscuits and waffles, and macaroni vermicelli (Chapter III(3)(iv)).

Table IV.3
Export subsidies by agricultural product, 2003

Product	Rate (in US$/ton)	Share of exported quantity eligible for the subsidy
Cut flowers (fresh)	285	57%
Vegetables, frozen (exc. potatoes)	106	38%
Vegetables (dehydrated)	370	33%
Fruit (frozen)	92	45%
Preserves, pastes	55	85%
Homogenized fruit preparations	53	69%
Fruit juices (concentrated)	168	31%
Olive oil	200	100%
Prepared or preserved fish	210	100%
Meat of poultry (excl. edible offals)	199	28%
Eggs	US$7/1,000 pieces	40%
Chocolate and other food preparations containing chocolate	110	60%
Biscuits, waffles	110	30%
Macaroni vermicelli	73	40%
Potatoes	20	..
Onion (dried)	17	..

.. Not available.

Source: WTO documents G/SCM/N/71/TUR, 25 October 2001; and G/SCM/N/60/TUR, 2 March 2001.

26. According to the OECD, the producer subsidy equivalents (PSEs), which capture the annual value of transfers under agricultural policies, as percentages of total value production, rose from 15% in 1986-88 to 18% in 2000-02; while the implicit tax on consumers, as measured by the consumer subsidy equivalents (CSEs), which indicate the annual value of money transfers to consumers under agricultural policies, also increased, from -14% to -16% (Table IV.4).[21] After peaking at 26% of farm

[21] The PSE estimate includes both transfers from consumers of agricultural products (through domestic market price support) and transfers from taxpayers (through budgetary or tax expenditures). The CSE, when negative, measures the implicit tax imposed on consumers by agricultural policy. The major component is market transfers due to market price support to production; it also includes other transfers such as subsidies to consumers from government budgets (OECD, 2002a).

receipts in 1998, the PSE decreased to 10% in 2001, but it is estimated to have increased to 23% in 2002. The steep decrease in support in 2001 was mainly the result of the start of ARIP, which initiated the elimination of administered prices and input subsidies in the context of high inflation, without yet providing the foreseen level of compensatory payments. The rebound in support in 2002 can be explained by the increase in price support and the implementation of the DIS system.

Table IV.4
Transfers associated with agricultural policies in Turkey, 1986-02

		1986-88	2000-02	2000	2001	2002[a]
PSE	€ million	2,611	5,435	7,342	2,514	6,451
	US$ million	2,874	5,032	6,766	2,251	6,080
	(%)[b]	15	18	21	10	23
CSE	€ million	-1,961	-4,197	-6,140	-1,722	-4,729
	US$ million	-2,149	-3,886	-5,658	-1,542	-4,457
	(%)[c]	-14	-16	-22	-8	-19
Total transfers [d]	€ million	2,888	8,543	11,384	6,041	8,205
	US$ million	3,183	7,878	10,491	5,410	7,733
	(% of GDP)	3.6	4.2	5.3	3.6	4.1
Memo item:	€ million	275,029	342,514	348,682	341,122	337,737
Total transfers for all	US$ million	302,251	315,045	321,335	305,501	318,300
OECD countries	(% of GDP)	2.3	1.2	1.3	1.2	1.2

a Provisional.
b PSE as a percentage of total value of production (valued at domestic producer prices), adjusted to include direct payments and to exclude levies on production.
c CSE as a percentage of total value of consumption (valued at domestic producer prices).
d Total transfers are not the sum of PSE and CSE; they cover the total value of production and include not only transfers to agriculture, as measured by the PSE and CSE, but also other transfers associated with agricultural policies.

Source: OECD (2003), *Agricultural Policies in OECD Countries,* Paris.

27. In 2002, support to agriculture, including rural development, represented about 2.8% of the state budget, amounting to €1,690 million: €875 million financed direct support schemes to farmers and €815 was devoted to general support measures.[22] The OECD estimates that total support to agriculture (TSE) as a percentage of GDP increased from 3.6% during 1986-88 to 4.2% in 2000-02.[23] The producer subsidy equivalents (PSEs) of assistance to Turkey's main products show that beef and veal, sugar, milk, poultry, and eggs are major beneficiaries (Table IV.5).

28. The total value of aid that potentially has the most production distorting effects (market price support, payments based on output, and input subsidies) represented almost 100% of producer support up to 2000, benefited mainly larger farms, and increased the pressure on the use of natural resources (such as water). This share fell to 80% in 2002.[24]

29. The Turkish Grain Board (TMO) is being restructured on the basis of the EU system. The changes include: limiting TMO's purchases to emergency and supplementary purchases; transferring the existing storage facilities to the private sector, and then leasing such facilities to producers; maintaining TMO as a central institution with a view to facilitating emergency and intervention purchases in the medium term; and guaranteeing that the TMO's purchases are made only through the commodity markets.[25] Preparatory work for restructuring and privatizing the Directorate-General for

[22] European Commission (2002).
[23] TSE is an indicator of the monetary value of all gross transfers from taxpayers and consumers arising from policy measures that support agriculture, net of the associated budgetary receipts. When expressed as a percentage of GDP, it gives an indication of the burden this overall support represents for the economy (OECD, 2002a).
[24] OECD (2003).
[25] Republic of Turkey (2002).

Tea Enterprises (CAYKUR) is also to be initiated. Moreover, new laws regarding agricultural product insurance and on producer association are to be adopted.

Table IV.5
Producer subsidy equivalents by category of product, 2002

	Producer subsidy equivalents (2002)[a]	
	(TL billion)	(% of PSE)
Crops		
Sugar	549,445	46
Wheat	371,592	10
Maize	30,511	8
Other grains	59,611	5
Oil seeds	58,001	14
Livestock products		
Beef and veal	997,676	52
Sheep meat	-156,795	-15
Poultry	312,120	27
Milk	803,169	35
Eggs	188,815	28
All commodities	**9,194,306**	**23**

a Provisional.

Note: The producer subsidy equivalent measures the value of transfers to agriculture resulting from agricultural policies in a given year; the estimate includes transfers from consumers of agricultural products (through domestic market price support) and transfers from taxpayers (through budgetary or tax expenditure).

Source: WTO Secretariat, based on OECD (2003), *Agricultural Policies in OECD Countries – Monitoring and Evaluation 2003*, Paris.

30. All farmers are subject to the withholding tax at the rates of 2% of the sale value of livestock products; and 4% of the sale value of other agricultural products. When the agricultural product is sold through trading stocks, half of the rates indicated above are applied. Export taxes still apply at the rate of US$0.04 per kg. on unshelled hazelnuts and US$0.08 per kg. on shelled hazelnuts. Semi-processed leather is subject to an export tax at the rate of US$0.50 per kg. According to the authorities, the taxes on hazelnuts are intended to ensure price stability; in the case of semi-processed leather they are applied for "environmental reasons".

31. Tariff protection for agriculture remains relatively high. The simple average MFN tariff in agriculture (Major Division 1 of ISIC Revision 2) is 25% (Chapter III(2)(iii)(b)). Imports of agricultural products, such as live animals for breeding purposes are duty free. Tariff rates on some meat products and edible offal range up to 227.5%; and buttermilk, curdled milk, and cream carry duties up to 170%. Moreover, the specific, compound, and formula duties apply mainly to agricultural products (Chapter III(2)(iii)(b)).

32. In the Uruguay Round, Turkey undertook to reduce its budgetary outlays for export subsidies for 44 products (at the HS four-digit level) by 24%, and the volume of subsidized exports by 14% in equal instalments over a ten-year period starting in 1995. Turkey did not make any commitments to cut financial support to agricultural producers; the authorities estimated that their support – as measured by the Aggregate Measurement of Support (AMS) - was below the *de minimis* level of 10%, for which no reduction commitments were required.[26]

[26] The main difference between the AMS and the PSE is that price differences in the AMS calculations are estimated by reference to domestic administered prices and not actual producer prices. Moreover, the AMS

33. Some Members have raised concerns in the WTO Committee on Agriculture about Turkey's obligations regarding export subsidies for wheat[27]; issuance of import control certificates for a variety of agricultural products[28]; domestic support commitments on sugar beets[29]; and import permits for rice.[30] Since 1998, three complaints have also been made in the WTO SPS Committee against Turkey (Chapter III(2)(vi)(d)).

34. At the regional level, in addition to non-agricultural products, Turkey and the EU have agreed to work towards free bilateral trade in their agricultural goods (Chapter II(4)(ii)(a)). In line with the CUD, processed agricultural products imported into Turkey from the EU are subject to customs duties comprising an industrial and an agricultural component; while all industrial components enjoy duty-free treatment, few agricultural components are subject to preferential treatment; MFN customs duties still apply to most agricultural components.[31] The limited coverage of agricultural products under the preferential regime with the EU and under Turkey's other bilateral agreements delays their exposure to greater competition: the products are generally subject to preferential tariff quotas (Chapter III(2)(iii)(e).

(3) MINING AND ENERGY

(i) Overview

35. Turkey has limited reserves of oil and natural gas, but significant proven reserves of lignite, as well as borax, chromite, magnesite, and marble. Renewable combustible, particularly wood, and the country's water courses are other important indigenous energy resources. The 1999 earthquake heavily damaged the energy infrastructure of the country, including oil and gas production facilities and TUPRAS' Izmit refinery.[32] The public sector accounts for almost 70% of the value added of the mining subsector, while the private sector has recently been taking an increasingly important role in energy asset management and operations, especially in the generation segment of the electricity market.

36. There have been no major changes to the institutional framework of Turkey's mining subsector since its last TPR. A major institutional change in the energy subsector was the establishment of the Energy Market Regulatory Authority (EMRA) in 2001. Policy issues related to energy and mining are the responsibility of the Ministry of Energy and Natural Resources (MENR), whereas issues related to quarrying are under the Ministry of Interior. The General Directorate of Mining Affairs is responsible for the administration of the Mining Law on behalf of the MENR. The Undersecretariat of State Planning Organization (SPO) evaluates Turkey's general energy needs, while the Privatization Administration is responsible for the sale of SEEs, and their preparation for

---

fixes the external reference prices at the average levels of the 1986-88 base period, and certain budgetary transfers are included in the PSE but not in the AMS (OECD, 2003).

[27] WTO documents G/AG/R/22, 25 April 2000 and G/AG/R/25, 21 December 2000.

[28] WTO document G/AG/R/25, 21 December 2000.

[29] WTO document G/AG/R/31, 27 August 2002.

[30] WTO document G/AG/R/32, 6 November 2002.

[31] The agricultural component of each good is calculated by multiplying the quantity of primary agriculture products used in processing, according to an agreed set of ratios, by a specific rate charge ("basic amount").

[32] Also, some 3,400 electricity distribution towers and some 490 km of overhead electricity lines were damaged or destroyed, as well as the underground cable network (International Energy Agency, 2001).

privatization. The fact that several public institutions are engaged in mining and energy activities, causes inefficient coordination within the sector, and makes it difficult to solve problems.[33]

37. Customs tariffs average 0.2% in mining and quarrying, and range from zero on, *inter alia*, sulphur, ores and concentrates, coal, lignite, crude petroleum, natural diamonds and precious stones, to 20.9% on salt and pure sodium chloride (HS 250100). Imports of electricity are duty free.

(ii) Mining

38. Turkey's main objectives in mining are to produce competitive and safe raw materials, and to increase value added in the Turkish economy by processing mining products. Mining Law No. 3213 is still the main legal framework for mining activities in Turkey. It is to be amended by incorporating issues on, *inter alia*, salt and quarrying, to ensure uniformity in mining activities and endow mining practices with a more efficient legal structure.[34] According to this Law, foreign nationals and companies may invest in the mining subsector only through locally incorporated companies. Investments in all minerals are open to foreign investors, except baron, uranium and thorium, where exploration and exploitation are reserved for the Government.

39. The three types of licences required for activities in the subsector are specific to either mining (mining exploration licence, mining pre-operation licence, and mining operation licence) or marble (marble exploration licence, marble pre-operation licence, and marble operation licence). Exploration licences are valid for a non-renewable period of 30 months; pre-operation licences are valid for a non-renewable period of three years; while the duration of operation licences cannot be less than ten years. Operation activities can be started at the end of pre-operation, or directly after exploration if the reserve is proven. All activities in the subsector are subject to environmental control by the Ministry of Environment and Forestry. Depending on the location of the activities, permission may be required from the Ministries of Health, of Agriculture and Rural Affairs, and of Culture and Tourism. A royalty of 10% applies to the gross profit made from operations in the subsector. For mining companies that use the ore they produce in their processing activities, the royalty calculation takes into account their total production costs.

40. In 1985, a Mining Fund was established (Article 34 of Law No. 3613) under the supervision of the MENR to provide financial credits for exploration, technical research, development, project preparation, installation, construction, production, and export activities; 5% of gross profits obtained from a mining operation are payable to the fund. Other resources include: transferred deposits; revenues obtained by selling confiscated ore and material; public auction revenues; and budget allowance. There are currently five schemes providing credits at rates well below market rates (Table IV.6).

Table IV.6
Credit schemes through the Commission, 2003

Scheme		General features	Nominal interest rate
A.	Mine research and development	Maximum three year credit; no repayment on principle for the first year; amount cannot exceed 50% of expenditure on exploration and definition of mineral reserves and other properties in the permitted area	20%
B.	Installations, enlargement, and development	Maximum five year credit; no repayment on principle for the first two years; amount is proportional to self-source rate; credit covers expenditure on expansion of facility, for enlargement and renovation investment, and for infrastructure expenditure in the permitted area	20%

Table IV.6 (cont'd)

[33] Undersecretariat of State Planning Organization (2001).
[34] Undersecretariat of State Planning Organization (2001).

Scheme		General features	Nominal interest rate
C.	Management (operating) credit	Maximum three year credit; no repayment on principle for the first year	25%
D.	Export credit		20%
	(i) Export credit	One year credit; 50% of total expenditure to meet the needs of production and exports of the mineral	
	(ii) Letter of credit of export certificate credit	Six month credit period; maximum 50% of the letter of credit; the credit is to supply the finance until the export of the mineral	
E.	Stock credit	Stock credit maximum 20-40% of the stock cost for minerals produced and prepared	25%

Note: All credits require a bank guarantee letter covering 1.3 times of the credit amount.

Source: WTO Secretariat, based on information provided by the Turkish authorities.

(iii) Energy

(a) Policy developments

41. Turkey is among the fastest growing energy markets in the world[35]: the total primary energy supply (TPES) growth rate is nearly 5% per year and total final consumption (TFC) growth has been around 4% per year over the last three decades. The Government expects demand growth to accelerate in the coming years, with an annual average TFC growth rate of 6.4% during 2000-10. Turkey's import dependency is increasing. Domestic production could meet only 38% of the demand in 1999 (Table IV.7), and the Government expects this to fall to 27% by 2010. In 1999, oil represented around 61% of total net energy imports, followed by gas (23%), and coal (15%). Foreign direct investment needs in the subsector are estimated at about US$4.5 billion per year until 2010.[36]

Table IV.7
Turkey's energy balances, 1973-20
(Million tones of oil equivalent)

	1973	1990	1998	1999	2005	2010	2020
Total production	**15.65**	**25.48**	**29.32**	**27.66**	**31.71**	**40.87**	**61.22**
Coal[a]	5.28	11.72	13.94	13.28	18.79	26.14	32.36
Oil	3.69	3.90	3.39	3.09	1.81	1.13	0.49
Gas	..	0.19	0.51	0.67	0.19	0.17	0.14
Comb. renewable & wastes[b]	6.41	7.21	6.98	6.72	5.33	4.42	3.93
Nuclear	..	..	..	..	..	..	7.30
Hydro	0.22	1.99	3.63	2.98	3.09	5.34	10.00
Geothermal	0.05	0.43	0.66	0.69	2.12	2.62	4.73
Solar/wind/other[c]	..	0.03	0.21	0.24	0.38	1.05	2.27
Total net imports[d]	**9.02**	**28.48**	**45.61**	**46.03**	**83.45**	**113.00**	**220.98**
Coal[a]							
Exports	..	..	..	..	..	..	..
Imports	0.01	4.56	8.75	7.79	7.29	13.55	75.21
Net imports	0.01	4.56	8.75	7.79	7.29	13.55	75.21
Oil							
Exports	0.86	2.03	2.37	2.77	..	..	..
Imports	9.96	23.40	30.29	30.17	41.99	50.04	71.41.
Bunkers	0.09	0.36	0.63	0.59	..	..	..
Net imports	9.01	21.02	27.29	26.82	41.99	50.04	71.41
Gas							
Exports	..	..	..	..	..	..	..
Imports	..	2.96	9.31	11.25	33.87	49.41	74.36
Net imports	..	2.96	9.31	11.25	33.87	49.41	74.36

Table IV.7 (cont'd)

35 International Energy Agency (2001).
36 Foreign Economic Relations Board (2002).

	1973	1990	1998	1999	2005	2010	2020
Electricity							
Exports	..	0.08	0.03	0.03	..	..	..
Imports	..	0.02	0.28	0.20	0.30	..	..
Net imports	..	–0.06	0.26	0.18	0.30	..	..
Total stock changes	**0.27**	**-0.95**	**-0.12**	**0.49**	**..**	**..**	**..**
Total supply (TPES)	**24.51**	**52.99**	**74.71**	**74.28**	**115.16**	**153.87**	**282.19**
Coal[a]	5.24	16.38	22.93	21.60	26.08	39.70	107.57
Oil	12.60	23.90	30.35	30.14	43.80	51.16	71.89
Gas	..	3.11	11.74	11.74	34.06	49.58	74.50
Comb. renewables & wastes[b]	6.41	7.21	6.98	6.72	5.33	4.42	3.93
Nuclear	..	..	..	..	..	..	7.30
Hydro	0.22	1.99	3.63	2.98	3.09	5.34	10.00
Geothermal	0.05	0.43	0.66	0.69	2.12	2.62	4.73
Solar/wind/other[c]	..	0.03	0.21	0.24	0.38	1.05	2.27
Electricity trade[e]	..	-0.06	0.26	0.18	0.30	..	..
Shares (%)							
Coal	21.4	30.9	30.7	29.1	22.7	25.8	38.1
Oil	51.4	45.1	40.6	40.6	38.0	33.2	25.5
Gas	..	5.9	13.0	15.8	29.6	32.2	26.4
Comb. renewables & wastes	26.1	13.6	9.3	9.0	4.6	2.9	1.4
Nuclear	..	..	..	..	..	..	2.6
Hydro	0.9	3.8	4.9	4.0	2.7	3.5	3.5
Geothermal	0.2	0.8	0.9	0.9	1.8	1.7	1.7
Solar/wind/other	..	0.1	0.3	0.3	0.3	0.7	0.8
Electricity trade	..	-0.1	0.3	0.2	0.3	..	..

.. Not available.

a Includes lignite and peat.
b Comprises solid biomass and animal products, gas/liquids from biomass, industrial waste, and municipal waste.
c Other: tide, wave, and ambient heat used in heat pumps, etc.
d Total net imports include combustible renewables and waste.
e Total supply of electricity represents net trade. A negative number indicates that exports are greater than imports.

Source: Ministry of Energy and Natural Resources.

42. The assets of the energy subsector in Turkey are owned almost completely by SEEs, such as TEAS (generation and transmission), TEDAS (distribution), and BOTAS (gas) (Table IV.8). The main objectives of Turkey's energy policy are, *inter alia*, self-sufficiency in energy through efficient, sustainable, and health and environment-friendly use of local resources (including from new and renewable sources); improving the functioning of the industry; reducing public transfers to the SEEs operating in the subsector; and exploiting of the country's geopolitical location to make it a pivotal transit area for international oil and gas trade ("Eurasia energy corridor").[37] To this end, the Turkish energy subsector (over 90% state-owned) has been a primary target of the privatization programme for years.

43. Electricity Market Law No. 4628 and Natural Gas Market Law No. 4646, came into force on 3 March 2001 and 2 May 2001, respectively. The main objective of the Electricity Market Law is to liberalize the subsector through: (i) unbundling generation, transmission, and distribution activities, and creating wholesale and retail segments of the market; (ii) competition in all segments of the electricity network, excluding transmission, which will remain in public ownership and management; (iii) privatizing the existing generation and distribution assets; (iv) non-discriminatory access to the transmission facilities; and (v) eliminating cross-subsidies. Furthermore, the law provides for the

[37] Turkey has given priority mainly to two pipeline projects: the Baku-Tbilisi-Ceyhan Crude Oil Pipeline (involving Azerbaijan and Georgia), which is expected to come into service by 2004; and the Trans-Caspian Natural Gas Pipeline for regional cooperation in the supply of fuel.

establishment of the Energy Market Regulatory Authority (EMRA), with administrative and financial autonomy, and a decision-making board (the EMRA Board). The EMRA is in charge of preparing and implementing secondary legislation[38]; authorizing market participants by granting licences; approving and publishing tariffs; monitoring and supervising market participants; conducting technical, legal, and financial audits; settling disputes; approving, amending, and enforcing performance standards; and applying sanctions where necessary.

Table IV.8
Selective state intervention in the energy sector, as at September 2003

State-economic enterprise	Market share	Price regulation	Other
Oil & Gas			
Turkish Petroleum Corporation (TPAO): production and exploration	Produces 70 % of Turkish oil; owns and operates thirteen out of twenty gas fields	Price of crude oil is set in accordance with Article 3/25(a) of Petroleum Law 6326	Oil producers may only export up to 35% of crude oil production onshore and 45% off-shore
Turkish Petroleum Refinery Corporation (TUPRAS)[a]: refining	Owns four out of five refineries; 85% of total capacity	Ex-refinery oil product price is set in line with Italian c.i.f. price in a band of plus or minus 3%	The price system was introduced in July 1998
Petroleum Pipeline Corporation (BOTAS): natural gas import, transportation, distribution, sale and crude oil transportation According to the Natural Gas Market Law, private sector has the right to be involved in the natural gas market activities, and unbundling of BOTAŞ for the above-mentioned activities is foreseen	The monopoly of BOTAS was abolished by the Natural Gas Market Law	Retail sale, wholesale, connection, storage and transmission and supervision of conveyance tariffs are subject to EMRA's approval. However, until competition is in place, all tariffs are determined and prices are defined by EMRA	
Coal			
Turkish Hardcoal Enterprises (TTK): hard coal	Sole producer of hard coal.	Prices set by TTK	Heavily subsidized
Electricity Generating Corporation (EUAS)	Produces 23% of Turkish lignite	Prices set by EUAS	
Turkish Coal Enterprises (TKI): lignite	Produces 60% of Turkish lignite	Prices set by TKI	
Electricity			
Electricity Generating Corporation (EUAS) : generation	Owns 62 % of electricity installed capacity	Prices set by EUAS.	Private sector may participate in all segments of the market, except for transmission, through obtaining licences from EMRA. Privatization of generation is also on the agenda
Turkish Electricity Transmission Corporation (TEIAS): transmission	Owns and operates the transmission system and also acts as a system and market operator	Cost-reflective tariffs are calculated and methodologies are derived according to the Electricity Market Tariffs Regulation and the related communiqués, and are submitted to EMRA for approval	TEIAS will remain as the sole transmission system operator and asset owner in the long-run
Turkish Electricity Trading and Contracting Corporation (TETAS): wholesale	In charge of trading and wholesale of almost 80% of total generation	TETAS submits tariff proposals to EMRA for approval	TETAS took over all the public sector purchasing obligations of the previous regime. TETAS may neither sell to new consumers nor sign any new PPAs except the obligations as stated in the EML, and its role is intended to diminish over time, once the cost burden is mitigated.
Turkish Electricity Distribution Corporation (TEDAS): distribution and retail	Owns and operates the distribution system engages in retail sale	TEDAS submits distribution and retail tariff proposals and the derived methodologies to EMRA for approval	Distribution privatization is also on the agenda

a TUPRAS and Petrol Ofisi have small private shareholdings (3.6% and 6.7%, respectively).

Source: WTO Secretariat, based on information provided by the Turkish authorities.

44. The two laws also prevent any public institution from engaging in market activities (except for transmission of electricity) until the realization of privatization. The current structure of the subsector, based on contracts, with purchasing guarantees and high prices, will have an unfavourably

[38] Secondary legislation includes regulations, communiqués, and decisions.

impact on the market for many years to come, and in the absence of further measures, will likely hamper the liberalization process and delay the consequent reduction of energy prices.

45. Licences related to export of electricity and natural gas are regulated under the Electricity and Natural Gas Market Laws and secondary legislation enacted by the EMRA. The export of electricity to countries that fulfil the international interconnection requirement is conducted by wholesale licensees provided that it is so stated in their licences. The wholesale and export licence fees are announced by the EMRA Board annually. For 2002-03, the one-time wholesale licence fee is TL 300 billion, plus annual licence fee of TL 100 per kWh sold; and the one-time export licence fee is TL 20 billion, plus an annual licence fee (currently set at TL 0 per kWh exported). A draft law on oil markets, aimed at encouraging the new investment needed in the subsector and establishing a competitive market, has been submitted to the Parliament. Licensing will be initiated once the law has been adopted.

46. The lack of adequate investment together with large energy wastage continue to cause power shortages in some areas. Increasing the country's electricity generating capacity continues to be a top priority for the Government, which is turning to the private sector for new investment and restructuring of the subsector. Three combined-cycle natural gas power projects, with a total capacity of more than 10,000 MW, are in operation. The operating rights of one thermal power plant and one hydro-power plant have been transferred to the private sector for a period of 20 years. Preparations are to be made soon for the introduction of nuclear power in the country.

(b) Policy by type of product

Oil and natural gas

47. There are three major SEEs in the oil and natural gas subsector: BOTAS, the Turkish State Petroleum Company (TPAO), and the Turkish Petroleum Refinery Corporation (TUPRAS). BOTAS lost its monopoly status on imports, distribution, and sales of oil and natural gas[39]; the other two SEEs have the largest shares in their respective markets. As from 2003, BOTAS has been required to commerce tenders to transfer its existing natural gas purchase and sales contracts until its imports fall to 20% of total annual consumption.

48. Oil resources are owned by the State, which grants licences for exploration and production. There are 25 companies in the upstream oil subsector in Turkey, located mainly in the south-east of the country where heavy, high sulphur content oil is produced. Almost three quarters of domestic oil production is accounted for by TPAO, and the Dutch company Perenco contributes about 21%. There are eight gas fields, seven of which are owned and operated by TPAO. TUPRAS owns four of Turkey's five refineries, and accounts for more than 85% of total capacity of 32 million tonnes. In distribution, there are 13 active companies including POAS, which has recently been privatized and accounts for about half of the market share.

49. The price of crude oil and the ex-refinery price of oil products are set by the Government, while the price of natural gas is set by EMRA (Table IV.8). The government also intervenes in other areas in the oil subsector. For example, domestic oil producers are allowed to sell only up to 35% of their oil production on the international market. Moreover, according to Decree No. 89/14264, all oil product importers are required to hold emergency reserve stocks equivalent to at least 90 days of their

[39] BOTAS is to be split into three SEEs after the year 2009, one responsible for trading, one for storage and the other for transmission. Except for transmission, they will be privatized. The two local distributors owned by BOTAS are to be corporatized and privatized subsequently.

annual imports. Since August 1995, distribution companies are required to hold stocks equivalent to at least ten days' consumption.

50. Foreign enterprises may invest in marketing and sales activities without restriction in the oil and natural gas subsector. They may invest in petroleum exploration provided they are not controlled or owned by foreign States. Petroleum-related activities can be carried out only through locally incorporated stock companies or Turkish branches of stock companies incorporated abroad. Approval by the Council of Ministers is required for investment in refining, transportation through pipelines, and storage.

51. In urban areas, EMRA is required to put natural gas licences up for tender. A separate licence is required for each market activity, and, where the activity is conducted in more than one facility, for each facility. Since application for licensing began in November 2002, 29 licences have been granted by EMRA for natural gas activities (to September 2003).

Coal

52. Two main SEEs, the Turkish Lignite Enterprises (TKI), and Turkish Hardcoal Enterprises (TTK), dominate the coal subsector. In the brown coal subsector, TKI produced about 56% of all lignite in Turkey, while private companies produced around 10% in 1998. Turkish brown coal has a low calorific value and a high sulphur, dust, and ash content, and Turkish hard coal is low grade. TTK has a de facto monopoly in hard coal production, processing, and distribution. These SEEs set the domestic prices of hard coal and lignite, taking into account world prices. The Government may influence the prices for social and economic reasons. The prices do not allow TTK to recover its costs; it has been steadily operating at a loss, whereas TKI became profitable in 1995.

53. Total subsidies paid by the Turkish Treasury to TTK amounted to TL 72 trillion (equivalent to US$171 million) in 1999, compared with TL 12.2 trillion (US$267 million) in 1995. TKI has not received any direct subsidies since 1995. Since 1993, the Government has aimed to increase productivity and reduce overstaffing in the coal subsector. Overall productivity increased from 98 to 124 tonnes per person-year between 1993 and 2000 in TTK, and from about 2,037 to 2,134 tonnes per person-year between 1999 and 2000 in TKI.[40]

54. TTK and TKI are not in the privatization portfolio, but the government is considering their privatization in the medium to long term. So far, privatization has occurred in only one case, the Cayirhan power plant, through a transfer of operating rights (TOOR) procedure.

Electricity

55. Turkey's electricity supply industry was until recently dominated by large SEEs such as TEAS and TEDAS.[41] Under the 2001 Electricity Market Law, the vertically integrated, state-owned undertaking has been unbundled into three companies responsible for different segments of the business: TEUAS for generation, TEIAS for transmission, and TETAS for trade. TEDAS is still in charge of distribution.[42] TEIAS is the sole operator for transmission. Since the second half of the

[40] The Government plans to increase domestic hard coal production, and in 2000, it hired a massive number of workers, thus undoing 40% of the labour reductions achieved since the beginning of the 1990s (International Energy Agency, 2001).

[41] As a first step towards the privatization of TEAS, in October 2002 it was separated into three companies, for generation, wholesale, and transmission activities.

[42] Distribution segments in 19 regions and 83 generation plants are earmarked for privatization. In total, three power generation companies are earmarked for privatization. The Government intends to launch pre-qualification tenders for these distribution segments by 31 December 2003. Another 27 companies/assets –

1990s, direct private participation has been allowed in all segments (except transmission) through a system based on bilateral contracts between participants and a complementing balancing and settlement mechanism.

56. The types of contracts are of build-operate-transfer (BOT), transfers-of-operating-rights (TOOR), and build-operate-own (BOO). They are for 20 years and are subject to power purchase agreements on predetermined quantities and price formulae, with the Treasury's guarantee. Several contracts have been signed for a total of almost 10,000 MW. The system has led to the accumulation of significant contingent liabilities, and implicit subsidization of an already inefficient subsector.[43] TETAS has taken over all purchasing obligations arising from the contracts. The benefits from low cost generation by TEUAS were used to offset the cost burden.

57. Tariffs for non-eligible customers, and for wholesale by TETAS are regulated.[44] Under the Electricity Market Tariffs Regulation and the related communiqués, tariffs must be cost-reflective and calculated on the basis of predetermined methodologies; costs not directly related to market operations must not be taken into account.[45] Direct refunds may be granted to consumers in need without compromising the overall cost-based principle of the tariff structure. Once determined by companies, regulated tariffs are subject to review and approval by the EMRA. All tariffs are published in the *Official Gazette* and on the EMRA's website to ensure transparency.

58. The consumer price of electricity is subject to four different levies: (i) 1% for the Energy Fund Share; (ii) 2% for Turkish Radio and Television Corporation surcharge; (iii) the aggregated amount of the two preceding levies is then subject to the Municipality Consumption Tax (5% for households and 1% for industrial users); and (iv) 18% VAT.

(4) MANUFACTURING

(i) Main features

59. Over the period 1990-98, the manufacturing sector in Turkey grew 5.9% at annual average growth rate of. Subsequently, the sector was hit by the 1999 earthquake in the Marmara region, where a major part of industrial establishments settled, as well as by the 2000-01 financial crisis in Turkey. As a result, annual average growth in manufacturing was -1.6% during 1998-02. Yet, the sector accounted for 20.2% of GDP in 2001, up from 19.3% in 1998, and employs about one-fifth of formal labour. Private investors have gradually moved into more sophisticated areas, such as consumer electronics and the automotive industry.

60. The composition of Turkey's manufacturing sector and international trade reflects its comparative advantages in labour-intensive production: almost one third of manufacturing value added is in the textiles and clothing, leather, food and beverages, and tobacco industries. Manufacturing exports accounted for 84.1% of total merchandise exports in 2002 (up from 76.9% in 1998), and consisted mainly of textiles and clothing and machinery and transportation equipment

---

thermal and hydropower plants – and 16 distribution networks are to be earmarked for privatization when the necessary preparatory work, including assessment, is completed.

[43] As TEAS and TEDAS only partially passed the high prices on to consumers, the resulting deficits of the two companies had to be covered by the public budget. Moreover, in order to eliminate the lack of coordination within the sector, a single ministry is to guide public institutions engaged in mining and energy. OECD, (2002b).

[44] Consumers with annual consumption above a threshold set by the Board, consumers purchasing natural gas for power generation, and local natural gas producers are considered as "eligible customers": they acquired the right to choose their suppliers. The others are "non-eligible customers".

[45] Network losses and illegal consumption of electricity are important concerns: it is estimated that more than 20% of electricity supplied to the grid is lost or illegally consumed by customers.

(40.9% and 28.5% of manufacturing exports, respectively). Manufactured products represented 66.2% of total merchandise imports in 2002, compared with 75.4% in 1998, and are concentrated in more capital-intensive industries, such as machinery and transport equipment and chemicals (45.9% and 23.6% of manufacturing imports in 2002, respectively).

61. Despite recent privatizations, the State continues to play an important role in manufacturing. SEEs still have significant shares in some heavy industries, such as petroleum refineries, non-ferrous basic metals, chemicals, and iron and steel, but also in such fields as tobacco and alcoholic beverages.

62. Foreign direct investment (FDI) in the manufacturing sector remains low: US$540 million per year on average during 1998-02, and 29% of total FDI in 2002, down from 58% in 1998 (Chapter I(3)).

(ii) Policy developments

63. Turkey's main long-term objective in the manufacturing sector is to increase its competitiveness and productivity by reducing direct state intervention. This is to be achieved through, *inter alia*, the privatization of SEEs; promotion of outward-oriented, technology-intensive, and high-value-added production; and support to small and medium-sized enterprises (SMEs) (Chapter II(3)). The Ministry of Industry and Trade (MIT), through the Public Agency for the Development of SMEs (KOSGEB), provides several services and support programmes (Chapter III(3)(iv)). Investment incentives are also granted via the Aids Granted to SMEs programme (Chapter III(4)(i)).

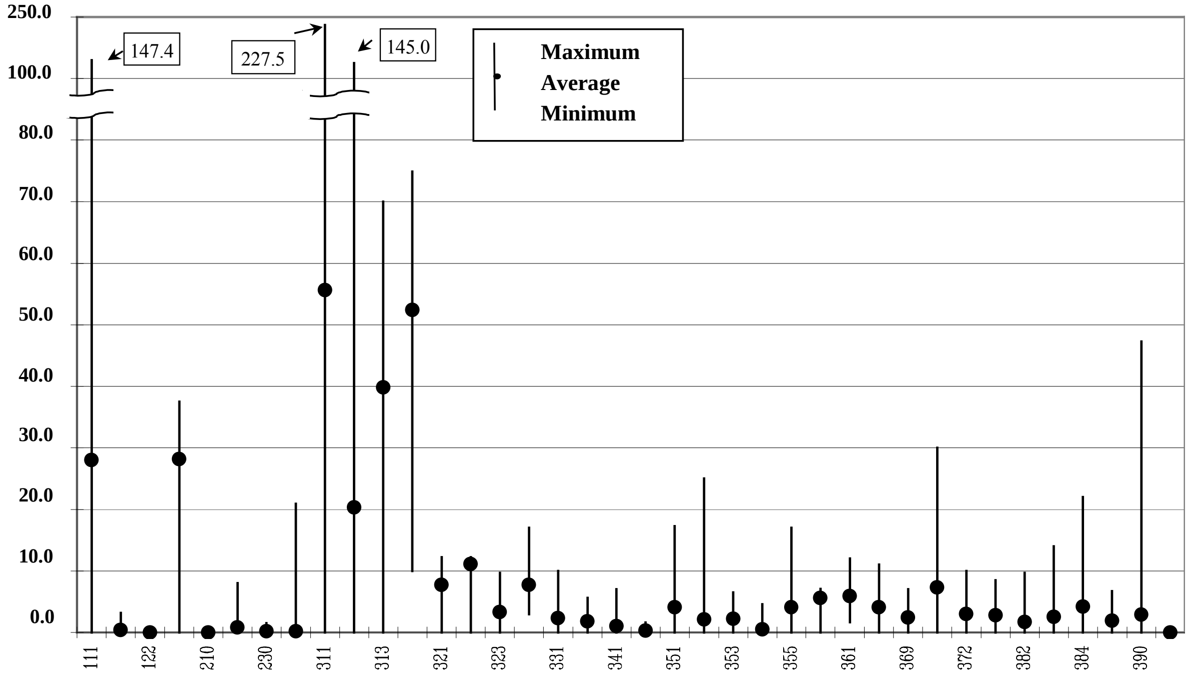
64. The manufacturing sector is the major beneficiary of state aid to domestic producers. In 2002, the sector was granted 65% of total investment incentive certificates. Textiles and clothing, followed by food and beverages, account for the majority of manufacturing certificates.[46] The sector is also the main beneficiary of duty concessions for exports as well as export credits and guarantees (Chapter III(3)(iv)).

65. MFN customs tariffs on manufactured goods average 11.1%. Food manufactures represent the most tariff protected industry (Chart IV.1). Specific tariffs are levied on products such as alcoholic beverages; mixed duties apply to, *inter alia*, carpets, glass and glassware products, and watches; and formula duties to certain manufactured goods, including sugar confectionary, chocolate, malt, and prepared potatoes (Chapter III(2)(iii)(b)). Subject to various incentive schemes (duty and tax concessions in particular), the tariff structure, with mixed escalation, does not encourage investment in production of certain semi-finished goods, in particular, in industries where the tariff displays negative escalation (Chapter III(2)(iii)(b)).

66. MFN tariff quotas apply to some iron and steel products. Under the CUD, Turkey has introduced quotas on certain textiles and clothing products (section (iii)(a)). Import licensing applies to 201 manufacturing lines at the HS four-digit level. Moreover, Turkish anti-dumping measures have mostly affected textile and clothing, base metals, plastics and rubber, and other manufactures such as lighters and pencils (Chapter III(2)(v)(a)).

[46] Textiles and clothing, and food and beverages industries are mainly dominated by SMEs. As a result, the number of incentive certificates granted to these two subsectors is relatively high, despite their low investment costs.

Chart IV.1
Turkey's tariff by ISIC classsification, 2003



International Standard Industrial Classification, Revision 2

	Description
111	Agricultural and livestock production
121	Forestry
122	Logging
130	Fishing
210	Coal mining
220	Crude petroleum and natural gas production
230	Metal ore mining
390	Other mining
311	Food production
312	Other food products and animal feeds
313	Beverages
314	Tobacco manufacturing
321	Textiles
322	Manufacture of wearing apparel, except footwear
323	Leather products, except footwear and wearing apparel
324	Footwear, except vulcanized rubber or plastic footwear
331	Wood and wood products, except furniture
332	Manufacture of furniture and fixtures, except primarily of metal
341	Paper and paper products
342	Printing, publishing and allied industries
351	Industrial chemicals
352	Other chemicals, including pharmaceutical
353	Petroleum refineries
354	Manufacture of miscellaneous petroleum and coal products
355	Manufacture of rubber products n.e.s.
356	Manufacture of plastic products n.e.s.
361	Pottery, china and earthenware
362	Manufacture of glass and glass products
369	Other non-metallic mineral products
371	Iron and steel basic industries
372	Non-ferrous metal basic industries
381	Fabricated metal products, except machinery and equipment
382	Non-electrical machinery including computers
383	Electrical machinery apparatus, appliances and supplies
384	Transport equipment
385	Professional and scientific equipment
390	Other manufacturing industries
410	Electrical energy

Source: WTO Secretariat calculations, based on data provided by the Turkish authorities.

(iii) Selected industries

(a) Textiles and apparel

67. Textiles and apparel constitute Turkey's largest industry; its 12.2% annual average rate of growth during the 1990s was more than double the average growth rate of the economy (5.2%).[47] In 2001, the textiles and apparel industry accounted for 5.5% of GDP, 22.6% of manufacturing output, and employed 21% of workers in the manufacturing sector. A key factor behind the industry's successful performance is Turkey's ample supply of home-grown cotton: Turkey is the world's fifth largest producer of raw cotton. Other factors are the top quality of Turkish raw cotton crops, low wage costs[48], skilled labour force, and the strong integration between the textiles and apparel industries. The subsector is dominated by the private sector, particularly SMEs. The MFN tariffs on textiles, wearing apparel, and leather products average 8.1%, with rates ranging up to 17%.

68. Turkey's exports of textiles and clothing products contributed 34.4% to total merchandise exports in 2002 (down from 51.4% in 1998), and the composition of exports has continued to shift towards higher-value-added finished products and ready-made clothing. In 2001, Turkey ranked 6th among the largest apparel exporters in the world with a share of 3.4%, and 10th among textile exporters. The EU has traditionally been Turkey's largest foreign market for both textiles and apparel, followed by the United States.

69. Over the last five years, about 56% of new spinning investments in the Turkish textile and apparel industry went to the Southeast Anatolia Project (GAP) Region.[49] GAP is the most comprehensive regional development project ever attempted in Turkey; it aims, *inter alia*, to more than double raw cotton production once the project becomes operational.[50]

70. The textiles, clothing, and leather industries do not enjoy any specific incentives. However, these industries are major beneficiaries of the incentives provided under the general investment encouragement programme (GIEP), such as exemption from customs duties and fund levies on imported machinery and equipment, VAT exemption on imported and locally purchased machinery and equipment, credit allocation from public budget, and exemption from certain taxes, duties and fees for bank operations, and other official dues on, *inter alia*, land and company registration (Chapter III(2)(iii)(f)). In 2002, investors in the textiles and clothing industries accounted for 26.1% of the investment incentive certificates, up from 15% in 1999 and 10% in 2001. Credit and guarantee programmes by Turk Eximbank are also among the more important incentives provided to textile and apparel investors (Chapter III(4)(i)).

71. In the past few years the performance of the textiles and clothing industries has suffered from volatile domestic prices of raw cotton. To counter this problem, the private sector is working with the Government to establish a futures market in an attempt to stabilize prices of raw cotton. Another

---

[47] The apparel industry ranked first in terms of growth in the Turkish economy. It grew by 20% per year on average during the 1990s, while the textile industry grew by 5% (Ministry of Industry and Trade, 2002).

[48] In 2002, the labour cost of the Turkish textile industry was US$2.13 per hour, five times higher than in East Asian countries but low by European standards (Ministry of Industry and Trade, 2002).

[49] GAP covers the provinces of Adiyaman, Batman, Diyarbakir, Gaziantep, Kilis, Mardin, Siirt, Sanliurfa, and Sirnak.

[50] The cost of GAP is estimated at about US$32 billion and consists of developing and managing land and water resources for irrigation and for industrial and urban uses; improving land use through crop design and agricultural practices; further developing agri-industries and other industries mainly by relying on locally available resources; and improving social, education and employment opportunities to attract qualified manpower to the region.

problem for these industries, and many others in Turkey, is the frequent power cuts. Moreover, the industries suffer from high prices for electricity relative to international tariffs (section 3(i) above).

72. Turkey introduced import quotas on certain textiles and clothing products under the CUD. In 2002, quotas for a variety of products (1,071 items at the HS eight-digit level) were distributed among 21 countries, of which 16 were WTO Members (Table IV.9). Within the WTO, some Members (Hong Kong, China; India; and Thailand) have expressed concern that the restrictions are not consistent with Turkey's obligations under the GATT/WTO, and in February 1998, India requested the establishment of a panel (Chapter II(4)(i)).

73. Turkey does not auction its quotas; auctions would have transferred part of the economic "rent" gained by the quota holders to the Government as public revenues. Instead, the larger part of the quotas are distributed among firms that exported the same category in the previous year. The remaining quotas are allocated to new exporters of the category of goods.[51]

74. Under the WTO Agreement on Textiles and Clothing (ATC), Turkey submitted the list of products included in the first, second, and third phases of integration into GATT 1994 (Chapter III(2)(iv)).[52] Turkey has retained its right to use the transitional safeguard mechanism under the provisions of the ATC (Article 6), but has not made use of it.[53]

75. Turkey continues to face quotas in the U.S. and Canadian markets for certain categories of textiles and clothing on the basis of bilateral agreements. Turkey maintains voluntary export restraints (quotas) on 41 textile and clothing categories with the United States and five with Canada.

Table IV.9
Allocation of textile and clothing quotas to WTO Member countries, 2003

Country	Number of quota categories	Main fibre coverage
Argentina	2	C
Brazil	9	C, M, W
China (P.R.)	35	C,M, W
Chinese Taipei	22	C, M, W
Egypt	2	C
Hong Kong, China	16	C, M, W
India	15	C, M, W
Indonesia	10	C, M, W
Republic of Korea	25	C, M, W
Macao	14	C, M, W
Malaysia	8	C, M, W
Pakistan	13	C
Peru	2	C, M, W
Philippines	9	C, M, W
Singapore	7	C, M, W
Thailand	13	C, M, W

Note: C denotes cotton; W denotes wool; and M denotes man-made fibre.

Source: Information provided by the Turkish authorities.

[51] Turkey's quota distribution system is described in detail in WTO (1998).

[52] The subsector will be integrated into GATT 1994 in four stages to be implemented by 1 January 1995, 1 January 1998, 1 January 2002, and 1 January 2005. Each Member can choose which products to integrate at each of the four stages, provided that they cover at least one product from each of the following groupings: tops and yarns, fabrics, made-ups and clothing.

[53] WTO document G/TMB/N/18, 6 March 1995.

(b) Pharmaceuticals

76. The Turkish pharmaceutical industry, with about 20,840 employees, grew at an annual average rate of 6.1% over 1995-00 in terms of production. Exports of pharmaceuticals reached US$170 million in 2002, accounting for 11.5% of chemicals exports; antibiotics rank first among exported pharmaceuticals. The industry is characterized by its relatively high import content; imports amounted to US$1.5 billion in 2002, mainly biotechnology products from the United States, Germany, and Switzerland. Of the 134 companies active in the industry, 35 are partially or wholly owned by foreigners. Tariff protection in the pharmaceutical subsector is very low, with tariffs on drugs and medicines averaging 0.7%.

77. The customs union with EU has brought about the harmonization of many of the regulations relating to the industry. In this respect, Turkey extended patent protection to pharmaceutical products as from 1 January 1999 (Chapter III(4)(iv)).

78. The importation and exportation of pharmaceuticals are not permitted unless registered with the Ministry of Health. According to Law No. 2313 relating to narcotics, the 1961 United Nations Single Convention, and the 1971 Convention on Psychotropic Substances, importation and exportation of pharmaceuticals containing controlled substances (narcotics, drugs, and psychotropic substances) can only be realized under a special import or export certificate (permit) issued by the Ministry of Health. In addition, the importation and exportation of narcotic drugs and psychotropic substances themselves may only be effected with the permission of the Ministry of Health (Chapter III(2)(v)).

79. Authorization of the Ministry of Health, is required for the production and marketing of all pharmaceuticals, and pharmaceutical products and firms must be registered with the Ministry. Prices of all locally made products are subject to the approval of the Ministry of Health.[54] Prices are intended to ensure a reasonable rate of return to pharmaceutical firms, while meeting the objective of keeping drugs available to the broad public. In order to set ex-factory prices, the Ministry determines the margins for wholesalers (9%) and retailers (25%). It also limits the profits of pharmaceutical companies to 15% on a company basis and 20% on a product basis, and restricts promotional expenses to less than 5% of sales. In practice, pharmaceutical companies often discuss price increases among themselves and each company then submits the agreed price increases (for all its products) to the Ministry for approval.

80. Similar restrictions on profits and promotional expenditure apply to imported pharmaceuticals, whether imported by domestic or foreign companies. A 14% margin of profit is allowed on the price paid by importers. This margin is calculated on the exchange rate prevailing at the time of physical import of each shipment, thereby dampening the impact of the continuing depreciation of the domestic currency. Foreign companies also have to register their products with the Ministry before they can be sold.

(c) Iron and steel

81. The iron and steel industry has been the backbone of industrialization in Turkey; the country is the world's 13th largest iron and steel producer.[55] The industry is now entirely operated by the

[54] Government Decree on Pharmaceutical Pricing No. 8845 of 1984.
[55] Ministry of Industry and Trade (2003).

private sector after the takeover of Isdemir, the last SEE in the subsector, by Erdemir in 2002.[56] The industry produced 16.5 million tons of crude steel in 2002 (up from 14.1 million tons in 1998); its estimated capacity is about 22 million tons. The production is divided into long steel (80.4% of total production of the industry in 2002), flat steel (17.6%), and special steel products (2%). The recent financial crisis caused a large reduction in domestic consumption and investment levels in the subsector, although some recovery was observed in 2002. Tariff rates on iron and steel products average 7.3%, with maximum rates of 30%.

82. Exports of iron and steel accounted for 6.7% of Turkey's total merchandise exports in 2002, the EU and Middle East countries are the main markets. Turkey is an importer of flat steel products (more than US$1 billion in 2002), and iron gem (US$140 million in 2000), and one of the biggest scrap iron importers (about US$1 billion in 2002). The country is trying to balance the long/flat ratio by restructuring existing plants to produce more flat steel products. It is estimated that about US$4 billion of investment is necessary for the restructuring of the iron and steel industry in Turkey. So far, however, FDI in the subsector has been very low.

83. In July 1996, Turkey signed an agreement with the European Coal and Steel Communities (ECSC) to abolish customs duties on bilateral steel trade. In accordance with the agreement, the majority of iron and steel products (509 items at the HS twelve-digit level) is freely traded between EU and Turkey. Customs duties on the remaining 142 products (long products and special steels produced in Turkey) were gradually abolished by the end of 1998.

84. The iron and steel industries do not enjoy any specific incentives. However, a restructuring plan for the Turkish steel industry is being prepared to allow Turkish steel companies to benefit from state aid for restructuring purposes (investments related to the conversion and modernization of existing facilities, which will not result in capacity increase) and for a specified period.[57] The industries account for a relatively small share of investment incentive certificates issued under the GIEP (Chapter III(4)(i)). Iron and steel manufactures accounted for 10% of Türk Eximbank's credits in 2002.

(d) Automotive

85. The motor vehicle industry in Turkey consists of 15 assemblers and manufactures (ten are foreign-owned or joint ventures) operating under licences, and employs more than half a million people. There are about 1,300 component suppliers. In the commercial vehicles industry, 12 companies were operating under foreign licence at the end 2002. The production capacity of commercial vehicles amounted to 289,155 vehicles in 2003; the passenger car industry is much larger and expanding, with a current production capacity of 726,000 units. Renault (in a joint venture with Oyak) and Fiat (in a joint-venture with Koc Com) accounted for about 75% of car output in 2002, and also dominated the market for imported licensed parts. Relatively low labour costs and unimpeded access to the EU automotive market are some of the main advantages for foreign firms investing in Turkey's automotive component subsector. Nevertheless, as with the rest of the economy, FDI in the industry remains low.

86. In 2002, automobile production increased by 16% and total capacity utilization in the industry was 36%. Moreover, total automotive exports have been increasing steadily, reaching US$4.3 billion in 2002 (from US$1 billion in 1998). The share of components in total automotive exports was 47.8%

---

[56] The transfer of Isdemir, one of the long iron producers, to Erdemir, Turkey's only flat iron producer, was made on the condition that Isdemir would start producing flat products within five years. Turkey is a net importer of flat products; but a net exporter in the iron and steel subsector.

[57] Articles 7 and 8 of the Agreement between Turkey and the ECSC.

in 2002 (down from 72.3% in 1998). About 65% of total automotive exports from Turkey go to the EU market.

87. Tariffs on motor vehicles average 6.2%, with a maximum rate of 22%. Other border measures include an import licensing system (Chapter III(2)(iv)). Most motor vehicles (six items at the four-digit level) may only be imported against a *pro forma* invoice certified by the MIT; the items concerned have remained unchanged since the last TPR of Turkey.[58] According to the authorities, these restrictions are to assure the suitability of imported vehicles for highways.

88. In addition to customs duties, vehicles sold on the domestic market, either through importers or domestic producers, are subject to the highest VAT rate of 18%. As from 1 August 2002, the motor vehicle purchasing tax (MVPT) was abolished (Chapter III(2)(ii)), together with the environmental fund tax (25% of the MVPT).

89. Passenger car manufacturers are not granted any specific incentives; however, as for all investors, they have access to those offered within the framework of the GIEP (Chapter III(4)(i)), and of the export incentive programme (Chapter III(3)(v)).

90. Although not legally required, foreign companies setting up a joint venture in the motor vehicle industry typically agree to incorporate a certain share of local content in their production. The local content rate has increased progressively from 20-25% in the 1960s to 70-80% in 2002.[59]

(5) SERVICES

(i) Main features

91. In 2002, the services sector contributed 64.3% to GDP (up from 61.7% in 1998), and employed about one third of the labour force. Turkey's foreign services trade surplus decreased from US$13.5 billion (equivalent to 6.7% of GDP) in 1998, to US$7.9 billion (about 4.4% of GDP) in 2002; tourism is a major net foreign exchange earner (Chapter I(3)(i)).

92. Several state-owned companies dominate services activities, and still operate under monopoly, or hold exclusive rights in several branches of the sector. These include Turk Telekom (telecommunications), Ziraat and Halk Bank (banking), and Turkish Airlines (air transport). Turkey is trying to accelerate the privatization of some of these companies (Chapter III(4)(ii)). Moreover, since its previous TPR, Turkey has taken measures to tackle some of the structural problems in some subsectors. In banking and telecommunications, for example, independent regulators have been appointed, and the scope of the liberalization and privatization process has been extended in some subsectors. The cost of the banking clean-up is estimated at around 30% of GDP, reflecting the long delay in addressing structural problems.[60]

93. Under the General Agreement on Trade in Services (GATS), Turkey scheduled commitments in several service categories, and accepted the GATS Fourth and Fifth Protocol on basic telecommunications and financial services, respectively.[61] Turkey maintains MFN exemptions under Article II of the GATS, reserving the right to offer more favourable treatment to some WTO Members in some specific areas of business, communication, financial, and transport services (Table AIV.2). Table AIV.3 provides details on Turkey's commitments under the GATS, including the 1997

[58] See WTO (1998), Table IV.14.
[59] Ministry of Industry and Trade (2002a).
[60] OECD (2002b).
[61] WTO documents WT/LET/199, 19 November 1997; and WT/LET/288, 18 February 1999.

improved commitments on financial services. Turkey has also tabled its initial conditional offer in the ongoing services negotiations.[62]

94. Services are not covered by the customs union agreement between Turkey and the EU. As part of the pre-accession strategy for Turkey, negotiations have started between Turkey and the EU on liberalization of services and opening up public procurement markets, in line with the Turkey-EU Association Council Decision of 11 April 2000. According to the authorities, Turkey is awaiting the EU Commission's reply to its proposals regarding the draft Association Council Decision following the third round of negotiations on 14 December 2001.

(ii) Financial services

(a) Banking

95. By the end of 2001, there were 51 banks operating in Turkey (down from 72 in 1997); 37 were commercial, and 14 were development and investment banks. The decrease in the number of banks in Turkey is mainly due to mergers, and revoked banking licences. In terms of ownership, 26 were private, 17 foreign, and the remainder were either state-owned or under the Savings Deposit Insurance Fund (SDIF).[63] The banking subsector employs 121,888 workers, and total assets were US$148.9 billion as of June 2003 (up from US$95 billion in 1997). All banks operating in Turkey are universal banks, allowed to carry out almost all types of financial activities. However, only investment and development banks can provide underwriting services. Banks are allowed to engage in equity intermediation activities through their subsidiaries. They do not face any effective competition from other financial institutions; most insurance and leasing companies are affiliated to and/or owned by banks. Foreign and domestic banks are subject to the same rules in terms of establishment, operation, and supervision.

96. Following its 2000-01 financial crisis, Turkey put into effect the Banking Sector Restructuring Programme (BSRP) to promote an efficient, globally competitive, and sound banking sector, free of distortions. The BSRP, announced to the public in May 2001, is based on four pillars: (i) restructuring of state banks; (ii) prompt restructuring of the SDIF banks; (iii) strengthening of private banks; and (iv) strengthening of the regulatory and supervisory framework by, *inter alia*, creating the Banking Regulation and Supervision Authority (BRSA). Under the first pillar, a Joint Board of Directors was appointed in April 2001 to address issues related to governance, ownership, and financial/operational efficiency of the state-owned banks, with the ultimate objective of privatizing them. Ziraat and Halk Bank are the two largest state banks and are scheduled to be privatized in 2003-04[64]; it is envisaged that Halk Bank will be the first to be prepared for sale.

97. The BRSA was founded under the Banks Act No. 4389 of 23 June 1999, and started its operations at the end of August 2000. It is the sole authority in banking regulation and in supervision of all banks (as well as the SDIF) in Turkey.[65] The SDIF, a public entity administered and represented by the BRSA, has been given the duty and authority to insure savings deposits, transfer or merge banks intervened by the BRSA with other banks, or transfer their shares to third parties or liquidate them. During the period 1997-03, of the 21 banks whose administrations were taken over by

---

[62] WTO document TN/S/O/TUR, 3 September 2003.

[63] In 1999, the SDIF was given the authority and responsibility to restructure banks in financial difficulties, to facilitate their sale, in full or in part, or to liquidate them.

[64] In 2001, Ziraat and Halk Banks received TL 22,955 trillion of state aid for accumulated duty losses and TL 3,245 trillion for capital injection, including cost-transferring net liabilities of Emlak Bank to Ziraat.

[65] Previously, the Undersecretariat of Treasury and the Central Bank of Turkey were the two main regulatory and supervisory bodies in banking.

the SDIF, 12 were merged, five were sold to domestic and foreign investors, and the licences of two banks were revoked. As of August 2003, there were two banks left under the administration of the SDIF. On 3 July 2003, the licence of T. Imar Bankasi T.A.S. to perform banking activities and accept deposits was revoked, pursuant to Article 14/3 of the Banks Act No. 4389 and, accordingly, the management and control of the bank were transferred to the SDIF, in accordance with Article 16/1 of the Banks Act.

98. The BSRP also aims to promote a healthier financial situation among private banks through the implementation of internationally accepted minimum capital requirements. In February 2002, the BRSA announced a new plan to recapitalize banks after a strict three-level audit of the 26 major private money deposit banks.[66] Prior to the audit, all banks have to switch to inflation adjusted financial statements. The next phase of the plan involves the possible use of public money but with incentives to maximize shareholders' contributions[67], as well as to merge with other banks. Furthermore, the plan seeks to accelerate new lending by requiring that a portion of any public funds be on-lent to non-related parties.

99. Since its enactment in 1999, the Banks Act has been amended three times with the aim of harmonizing the Turkish legislation with EU directives and international standards.[68] The establishment of an independent bank regulator may be the most important element of the banking reform. This progress may need to be consolidated by further enforcement efforts by the BRSA.

100. Under the Act, any bank in Turkey must be incorporated as a joint-stock company and have a minimum capital, paid in cash and free of any collusion, of TL20 trillion.[69] Foreign banks can operate in Turkey either by establishing branches, subsidiaries or joint ventures with banks established or about to be established. The establishment of the first branch of a foreign bank requires the approval of the BRSA. Off-shore banking activities cannot be performed in Turkey since the BRSA Board has not made any regulations in this are. Cross-border supply of banking services is not legally restricted. According to the authorities, regulations on surveillance of on- and off-balance-sheet risks (including credit risk of banks, measurement of capital adequacy of banks, and internal control) and risk management systems are, to a great extent, in compliance with the Basel principles.

(b) Securities

101. Inaugurated in 1986, the Istanbul Stock Exchange (ISE) is the sole securities market of Turkey, and was established to provide trading in equities, bonds and bills, revenue-sharing certificates, private-sector bonds, real-estate certificates, and foreign securities. The ISE consists of 119 brokerage houses and 45 banks[70], operates nationwide, and is an autonomous, semi-public organization. Margin trading, short-selling, securities lending and borrowing have been regulated by the Capital Market Board (CMB). By the end of August 2003, the ISE comprised 286 companies

[66] The auditing stage was completed in mid-June 2002. The first two audits were made by major audit firms (the first chosen by the bank itself and the second by the BRSA), and the third by BRSA.

[67] Three banks were assessed to have capital needs: the administration of Pamukbank was assessed to have a capital deficit of US$2 billion as of December 2001, and was taken over by the SDIF; the capital of Sekerbank was increased by its shareholders; while Vakiflar Bankasi was given a subordinated loan amounting to TL213.3 trillion by the SDIF upon a resolution of the BRSA.

[68] The banking amendments law of May 2001, Law No. 4672, strengthens the independence and authority of the BRSA, notably by providing staff members immunity from prosecution actions resulting from their duties.

[69] Principles and procedures related to the establishment of banks in Turkey are set forth in the Banks Act No.4389 and relevant regulations issued by the BRSA.

[70] Banks cannot operate in the equities market.

(down from a peak of 315 in 2000), 100 of which are included in the ISE National-100 Index.[71] The bonds and bills market of the ISE provides a trading environment for government bonds, treasury bills, revenue-sharing certificates, bonds issued by the Privitization Administration, and real-estate certificates. Striving to offer an international platform for investors as well as issuers, the ISE International Free Zone provides an opportunity for foreign securities to be traded in a tax-free environment. After reaching a peak of US$181.1 billion in 2000, trading volume in the ISE equities market steadily declined to US$70.8 billion in 2002, mainly as a result of the financial crisis.

102. The legal framework for the capital markets are laid out in the Capital Market Law of 1981 (most recently amended in December 1999). The CMB, established in 1982, has the authority to regulate primary and secondary markets in securities, supervise securities intermediaries and collective investment institutions, and register all public offerings of securities (except government paper). In addition, it has authority to regulate the issuing process of private-sector capital-market instruments. There are no restrictions on foreign portfolio investors trading in the Turkish securities market. The Turkish stock and bond markets are open to foreign investors without restriction on the repatriation of capital and profits.

103. Since 25 February 1997, the Istanbul Stock Exchange International Market (ISEIM) trades foreign debt securities, and debt securities of the Republic of Turkey and of its local administrations issued for foreign markets. The ISE Settlement and Custody Bank (Takasbank), an investment bank owned by the ISE and its members, handles the settlement of equities, bonds, and overnight transactions carried out in the ISE, as well as other related services. The CMB recognizes Takasbank as the sole and exclusive central depositary in Turkey.

104. The legal framework and operational structure of the trading system of the ISE derivatives market have been prepared. The initial objective was to launch the index futures contract as the first product, but due to the adoption of the free-floating exchange rate regime in February 2001, the exchange rates became very volatile and, as a result, the establishment of the currency futures market was accelerated. On 15 August 2001, the first futures contract on the TL/US$ rate was launched with a maturity date of 27 September 2001.

(c) Insurance

105. The Turkish insurance market consists of re-insurance companies, insurance companies, and insurance intermediaries (such as brokers and agencies). At end 2002, there were 55 insurance and three re-insurance companies operating in Turkey. In terms of operations, 21 insurance companies were in life, health, and personal accident (13 of these were operating as composite companies[72]), and 29 in non-life groups. At end 2001, 53 insurance companies were private (majority domestically-owned), two were majority state-owned, and five majority foreign-owned. Insurance and re-insurance companies have total assets amounting to US$3,201 million.

106. The market continues to be dominated by a few large companies, of which three represent approximately one third of the market. The relatively high degree of concentration is exacerbated by

[71] In addition, regional markets, the new companies market, and the watch-list companies market are available to the trading companies that do not fulfil the listing requirements and lack the necessary qualifications for trading in the national market. Moreover, since 2002, in addition to the listed companies, temporarily de-listed companies can be traded off (exchanged in a separate market). By the end of 2003, there were 13 such companies.

[72] Turkey ceased licensing composite companies in 1994, and since 1999, composite companies have been prohibited from simultaneously writing new policies in both life and non-life business. Existing portfolios, however, are being "grandfathered".

cross-ownership through holding companies. Foreign companies, which are much smaller than domestic companies, account for about 8% of total premiums.

107. The insurance subsector in Turkey is supervised and regulated by the Undersecretariat of Treasury, which reports to the Ministry of State in charge of economic policies. The General Directorate of Insurance is empowered to issue regulations regarding the insurance subsector, and to take measures conducive to the protection of the insured. The Insurance Supervisory Board is entrusted with the supervision, examination, and investigation of duties. The Insurance Supervision Law No. 7397 (with the amendments made in Statutory Decree No. 539 of 1994) governs the supervision of insurance and reinsurance companies. All insurance and reinsurance companies, whether foreign or Turkish, are subject to the same legislation.

108. Insurance or reinsurance companies may be established in Turkey only in the form of joint-stock companies. However, insurance companies may also be established as mutual companies. Foreign insurance and reinsurance companies may also operate in Turkey by opening branches, provided that they have not been prohibited in their country of operation. The establishment of an insurance or reinsurance company and the opening of a branch of a foreign insurance or reinsurance company in Turkey are subject to prior permission from the Ministry of State. Following establishment, insurance and reinsurance companies must obtain a licence from the Undersecretariat; a licence is issued for each branch separately. Subject to specified exceptions, cross-border supply of non-life insurance services is prohibited.[73]

109. Insurance companies may engage only in insurance business and must perform either life or non-life insurance business, but not both.[74] No class of insurance under monopoly apart from export credit insurance, which, by law, is provided solely by the Turk Eximbank. The only form of insurance activity prohibited in Turkey is tontines (by which the last survivor of a group of persons acquires the capital invested). The minimum paid-up capital requirement for insurance and re-insurance companies is TL10.3 trillion. The minimum solvency margin for insurance companies is set in terms of premium production and claims figures; the margin varies in life and non-life insurance branches. Compulsory reserves must be invested locally, except for premiums earned abroad in life insurance, as well as statutory and free reserves, which can be invested overseas, subject to certain criteria. There are no restrictions on portfolio composition and risk exposure of insurance companies.

110. Milli Reasurans T.A.S. (commonly refered to as Milli-Re) is the national reinsurance company. It was set up in 1929 to ensure that local companies could obtain reinsurance on reasonable terms, and to retain premiums for reinsurance in the country. The requirement for mandatory cession of domestic insurance business to Milli-Re was terminated on 1 January 2002, although Milli-Re will continue to enjoy a right of refusal on any business to be offered to foreign insurers (about US$40 million annually) until the end of 2006.

111. Compulsory earthquake insurance was launched though Decree Law No. 587 on 27 December 1999 and the creation of the Turkish Catastrophe Insurance Pool (TCIP). The TCIP is the only line of insurance business carried out by the public sector and its main aim is to mitigate the

[73] The exceptions are hull insurance of aircraft, helicopters, and ships purchased through a foreign loan or leased via a financial leasing contract from abroad, provided that the insurance period is limited to the term of the credit or leasing contract; marine liability insurance; transportation insurance of imported and exported goods; and individual accident, sickness, and motor vehicle insurance during any travel abroad.

[74] Companies that were previously licensed to operate both in life and non-life branches were required to transfer their life insurance portfolio no later than 31 December 1997, failing which they would not be permitted to issue life insurance policies.

risk being borne by public funds.[75] The programme is an example of public-private partnership as the insurance coverage is provided by the TCIP (a public legal entity), whereas insurance policies are distributed through participating insurance companies. For the year 2003, the TCIP can support insured losses of up to US$1 billion. If aggregate losses exceed that level, the excess could once again fall on the Government and policyholders.

112. Premiums for compulsory insurance are set by the Insurance Supervisory Board. Premiums for the other branches of insurance are set by the insurance companies.

(iii) Telecommunications and postal services

113. Since its last TPR, Turkey's telecommunications network has continued to grow, notably the mobile market where the number of cellular mobile subscribers jumped from about half a million in 1995 to more than 23 million in 2002 (Table IV.10). At the end of 2002, there were some 18.9 million fixed telephone lines in service, i.e. a teledensity of 28.12 (up from 21.44 in 1995). Since 1998, all Turkey's villages have a telephone, and household penetration is estimated at 87%.[76] Turkey had almost 5 million internet users in 2002.

114. The Turkish telecommunications subsector is engaged in a liberalization process, with the gradual opening of the mobile telecom and the internet service markets, and the establishment of an independent regulator, the Telecommunications Authority (TA). The Turk Telekom (TT), an SEE, is still the sole provider of basic telecommunication services. The expiration of TT's monopoly over fixed telephone line, domestic long-distance and international telephony has been brought forward two years to 31 December 2003 (or sooner if the State's share in the company falls below 50%)[77]; new laws also contain provisions aimed at facilitating its privatization.[78] As a result of these policies, the telecommunications subsector has recovered from its crisis of the first half of the 1990s.[79]

115. The creation of the Telecommunication Authority on 15 August 2000 put an end to the fragmented regulatory structure.[80] The TA, through the enactment of Laws Nos. 4502 and 4673, has the power to grant licences and to regulate prices for all telecommunications services. Any company planning to provide telecommunications services in Turkey has to obtain a licence or authorization from the TA.[81] New entrants must also ask the TA for permission to build new infrastructure if TT is unable to provide the required network because of limited capacity. Minimum licensing fees for telecommunication services (including GMPCS, internet service provision, premium rate services,

[75] It was launched after discussion involving the World Bank and major reinsurance companies. In the aftermath of the 1999 earthquake, it was found that only a small fraction of the economic loss was insured, and hence the repair burden fell mainly on the Government.

[76] This figure is from a survey of towns with population greater than 20,000 representing around 65% of Turkish population (ITU, 2002).

[77] According to its commitments under the WTO 1997 Agreement on Telecommunications Services, Turkey will abolish Turk Telekom's monopoly on basic services by 31 December 2005.

[78] In April 1995, the General Directorate of Post, Telegraph and Telephone was split into Turk Telekom and the General Directorate of Postal Services. Turk Telekom was corporatized in January 2000.

[79] Productivity in 1999, as measured by revenue per employee, was almost four times that in the mid-1990s (OECD, 2002b).

[80] The Ministry of Transport is responsible for telecommunications policies in Turkey, had two regulatory offices: the General Directorate of Communications (the regulatory body for communications), and the General Directorate of Radiocommunications (the regulatory body for radio communications and spectrum management).

[81] Previously, licences were issued by the Ministry of Transportation.

satellite platform services, satellite telecommunication services) are set by the TA, subject to approval by the Council of Ministers.[82]

Table IV.10
Selected telecommunication indicators, 1995-02

	1995	2000	2001	2002
Main telephone lines ('000)	13,216	18,395	18,905	18,915
Main lines per 100 inhabitants	21.44	28.17	28.52	28.12
Percentage of digital main lines	..	87.31	88.72	90.02
Public payphones ('000)	..	72	71	74
Cellular mobile subscribers ('000)	437.1	16,133	19,573	23,374
Cellular subscribers per 100 inhabitants	..	24.71	29.53	34.75
Full-time telecommunication staff ('000)	74.9	72.4	75.2	68.3
Telecommunication revenue as % of GNP	1.04	2.00	2.75	2.17
Televisions per 100 inhabitants	..	28	31	41
Internet users ('000)	..	2,000	4,000	4,900
Internet hosts	..	69,923	106,556	154,586

.. Not available.

Source: ITU (2003), *Telecommunication Indicators*, Geneva, and information provided by the Turkish authorities.

116. In accordance with the Directives Nos. 97/33/EC and 2002/21/EC, a "Communiqué regarding the Designation of Operators with significant Market Power" was issued on 3 June 2003, to ensure the application of the Tariff Ordinance, and of the Access and Interconnection Ordinance, published in the *Official Gazette* of 23 May 2003.[83] The Ordinance provides for the sharing, by all operators of infrastructure owned by operators having significant market power (SMP), on a cost, non-discriminatory, and transparent basis. TA set up a detailed dispute settlement procedure and is to publish standard interconnection charges based on log-run incremental cost. If parties fail to reach an agreement, even with the TA's mediation, the authority (TA) then sets terms, conditions, and prices for the access, including interconnection. All SMP operators are required to prepare and send their reference offers on access to the TA for approval. Access (including interconnection) agreements must be made available to the public. In January 2002, the TA introduced price-cap mechanisms in the determination of charges for services provided by TT, the sole fixed network operator. The TA is required to ensure that cross-subsidization between different services are avoided. As a further step towards an improved regulatory framework, the TA and the Competition Authority signed a Protocol on 16 September 2002. The TA is also enhancing public participation in the regulatory process through the establishment of a Telecommunication Policy Council comprising operators, consumers and experts.

117. The privatization of TT has been a major focus, not only of the liberalization of Turkey's telecommunications but also of the overall economic reform in the country. Two tenders were arranged for 20% and a 33.5% block sale of TT in June and December 2000, respectively, but no bids were received. Among the possible reasons, investors might have had some concern over management rights. As a result, a new Law No. 4673 was enacted on 23 May 2001, where by 100% of the TT has been freed up for privatization except for one "golden share" (a veto right) to address national security and public interest concerns. However, this might be a deterrent for greater participation by private investors; 5% of the stake is to be sold to retail domestic investors, and employees of TT and the

[82] For details on licensing and the related fees, see the Telecommunication Authority online information. Available at: http://www.tk.gov.tr.

[83] Only tariffs set by legal or physical monopolies, or operators in a dominant position or having significant market power in a relevant product or geographical market are regulated.

Postal Administration, through a public offering. Law No. 4673 also limits foreign ownership of TT to 45%, but does not prevent a foreign partner from acquiring management rights. In June 2002, the board of TT approved a restructuring plan involving its transformation into a holding company with eight firms under it, organized around lines of business. However, subsequently, the plan for transforming TT into a holding company was changed; current efforts are focusing on the reorganization of TT. Preparatory works for the sale of at least 51% of TT are under way.

118. A revenue sharing arrangement between the two GSM mobile telephone services operators, Turkcell and Telsim, and TT, which was converted into a 25-year licence in April 1998; both companies paid US$500 million. The mobile market was further opened in 2001 when two new GSM operators were licensed: Aria, partly owned by Telecom Italia Mobile, and TT's Aycell. Call-back services are not permitted by law, and TT may initiate legal action against such services. However, these services are not physically blocked. In addition to GSM mobile telephone services, the TA has been authorizing capital firms to provide some telecommunication services, such as internet service, satellite platform services, and satellite telecommunication services.

119. Turkey has signed: the ITU Constitution and Convention; ITU Radio Regulations; ITU International Telecommunications Regulations; Agreement, and Operating Agreement of INTELSAT; Convention, and Operating Agreement of INMARSAT; and Convention, and Operating Agreement of EUTELSAT. Turkey has not signed any bilateral agreements in the area of telecommunications.

120. The Turkish Postal Administration, under the Ministry of Communications, is the regulatory and operational body for postal services. According to the postal law, its monopoly covers open and closed letters, and cards for communication correspondence, and telegraphs for domestic or foreign destinations. The Turkish Postal Administration is carrying out reorganization work and automation of counter services to align the quality of its services on the Universal Postal Union (UPU) standards.

(iv) Transport

121. The Eighth Five-Year Development Plan of Turkey (2001-05) aims to elaborate a Master Plan on Transport under the coordination of the Ministry of Transport (MT).[84] In the absence of a master plan, problems regarding all transport activities are being tackled on an *ad hoc*, short-term basis, and without the necessary cooperation and coordination among the different transport industries. Other problems in the transport subsector stem from the fact that investing and operating agencies in the subsector are organized by different Ministries, and from the shortage of qualified staff at various branches.

(a) Maritime transport

122. Maritime transport is important for domestic and international trade, since four of Turkey's main industrial centres (Istanbul-Izmit, Izmir, Bursa and Adana) are on or near the sea. In 2002, total freight handled in Turkish ports was around 150 million tonnes (down from 170 million tonnes in 1999). In 2001, container handling reached almost 1 million teu (twenty feet equivalent unit). Port facilities are increasingly overcrowded and inadequate to deal with the rise in ship traffic.

123. Maritime activities are administered mainly by the Undersecretariat of Maritime Affairs, and subject to Turkish Commercial Law No. 6762, Cabotage Law No. 815, Ports Law No. 618, and the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers of 1978 (STCW78). The Law on Turkish International Flag Registration was put into force in 2000.

[84] Undersecretariat of State Planning Organization (2001).

The nation-wide Port Development Master Plan was put into effect the same year**,** aimed at restructuring Turkish ports and converting Turkey into an efficient international transportation corridor.

124. In the last few years, 13 public ports, operated by the General Directorate of the Turkish Maritime Organization (TDI), have been privatized, but the main ports are still operated by a public enterprise, the Turkish State Railways (TCDD). According to the authorities, privatization of ports will be pursued gradually. Moreover, no progress has been made in turning the administration of the ports over to autonomous institutions, which would encourage more efficient management. However, a project, called "Strengthening of the institutional and management structure of TCDD Izmir Port", and recommendations for alignment of the legal framework on the EU and the International Maritime Organization (IMO) regulations are being implemented.

125. If Turkey joins the EU, it will have to terminate the monopoly on cabotage to open it for EU vessels, and the coaster fleet would have to be strengthened to face competition.[85] Currently, merchant maritime transport and passenger services, pilotage, and all other port services can be provided only by Turkish flag ships (Cabotage Law No. 815). Turkey has two ship-register systems, the National Ship Registry and the International Ship Registry. In order to fly the Turkish flag, on the National Ship Registry, shipping companies must be 51% owned by Turkish nationals (Commercial Law No. 6762). First mates and masters of ships must be of Turkish nationality, while up to 40% of the officers of ships engaged in international seaborne transportation (i.e. excluding cabotage) can be foreign nationals.[86] The Turkish international registry is established in Istanbul. Ships and yachts owned by Turkish and/or foreign persons resident in Turkey and companies incorporated pursuant to the Turkish legislation, can be registered with the Turkish International Ship Registry and fly the Turkish flag. National vessels can be authorized to change flag for a period of between one and two years when they are bareboat "chartered out", while foreign vessels can be authorized to fly the national flag for a period of one to two years when they are bareboat "chartered in".

126. Vessels flying the Turkish flag benefit from a price preference: when bidding for public cargoes to be shipped to overseas countries or carrying strategic raw materials, they are awarded the bids if their quotation is up to 10% higher than the lowest foreign flag vessel quotation. Authorization by the Undersecretariat of Foreign Trade is required for public entities to ship imports under foreign flags. Foreign flag vessels are used in the following cases: (i) if Turkish flag vessels' quotations are more than 10% higher than quotations by foreign flag vessels; (ii) if loading is at ports not used by Turkish flag vessels; and (iii) if the capacity and/or technology used by the Turkish flag vessel is insufficient for the cargo and route.[87]

127. The tariff system for Turkish ports is based on the principle of non-discrimination between Turkish and foreign flags. Special tariffs at each port are established, and discounts on port dues and charges are linked to the frequency of calls at the port.

128. Special tax incentives are provided to Turkish investors in the maritime subsector. The wages of seafarers working on ships registered under Turkey's International Ship Registry are exempted from income tax and funds; and revenues gained from operating and transferring ships registered

---

[85] Undersecretariat of State Planning Organization (2001).

[86] The following ships are considered as Turkish: (i) ships that belong to legal persons, such as bodies, institutions, associations, and foundations set up in accordance with Turkish law, the majority of whose Board of Directors are of Turkish nationality; and (ii) ships that belong to trading companies, the majority of whose managerial staff and representatives are of Turkish nationality and are registered on the Turkish Trade Register (WTO document S/NGMTS/W/2/Add.23/Rev.1, 25 September 1995).

[87] Private importers are free to use foreign or national vessels.

under Turkish International Ship Registry, are exempted from personal income and corporate income tax. Profits from non-operation activities are not covered by the exemption. Book profits resulting from sales of vessels can be deducted from the purchase price of the same kind of replacement vessels within three years and after deducting the realized depreciation amount.[88]

129. All services, access to ports, pilotage, towing, and tug assistance, provisioning, fuelling and watering, and navigation aids, are available to all users of port services. Turkey has no laws and regulations governing the operation of liner conferences. Furthermore, the Turkish flag is still on the Black List of the Secretariat of the Paris Memorandum of Understanding on Port State Control.[89]

(b) Air transport

130. Air transport is still dominated by the state-owned Turkish Airlines (THY). Although THY has been in the privatization portfolio since 1994, no progress has been achieved so far (Chapter III(4)(ii)). Nevertheless, international traffic is dominated by international and private airline companies.[90] In addition to THY, there are 13 air carrier companies. Turkey has 33 airports operated by the General Directorate of the State Airports Enterprise (DHMI), 19 of which are international.

131. Private air carriers have been allowed to establish since 1983, with the enactment of Public Law No. 2920 on Turkish Civil Aviation. Authority for approval of new carriers is vested in the MT (pursuant to Law No. 2920 and the Regulation on Commercial Air Transport Operations issued under the law). Air carriers are authorized to schedule domestic services if they are registered in Turkey and operate a minimum of five registered aircraft of at least 100 seats[91]; where there is no company-owned aircraft, a bank letter of guarantee for up to US$3 million is required.[92] Technical and financial supervision of existing carriers is carried out by the Directorate General of Civil Aviation.

132. The majority of the company's executive and authorized representatives are required to be of Turkish nationality (Article 49 of Law No. 2920) and Turkish shareholders must have voting majority. Hence, the equity participation ratio of foreign shareholders is restricted to 49%. There are no plans to ease the restriction on foreign direct investment. Airlines with a majority of shares controlled by foreigners are not permitted to carry passengers from one national point to another.

133. Access to the main national airports is allocated following application to the Turkish Civil Aviation Authority under the rules prescribed in the General and Aerodrome sections of the Turkish Aeronautical Information Publication (AIP), and signature of a contract with a ground-handling company for the provision of services. Landing and take-off rights are allocated on slot time basis. Slot allocation is applied at Atatürk, Antalya, Adnan Menderes, Dalaman, and Esenboga airports, and Kayseri (in the summer). Air carriers operating scheduled services to Turkey are authorized on the basis of reciprocity within the framework of bilateral agreements. Charter services are authorized on

[88] Turkish International Ship Registry Law No. 4490 of 16 December 1999, Article 12.

[89] The percentage of Turkish flag vessels detained following Port State Control increased from 23.8% in 2000 to 24.5% in 2001 (this compares with an average for EU-flagged vessels of 3.1% in 2001). European Commission (2002).

[90] In 1999, 42% of international passengers were carried by foreign companies, 32% by private sector airlines, and 26% by THY (Undersecretariat of State Planning Organization, 2001). In 2002, 51% of international passengers were carried by foreign companies, 34% by private (domestic) sector airlines, and 15% by THY.

[91] At least two registered aircraft are required in the case of scheduled and non-scheduled domestic flights; the aircraft must be 20-100 seats capacity.

[92] There is no need for a guarantee letter if all the aircraft are owned. If some of them are owned and the rest are hired, the company shall provide US$250,000 value of tender guarantee letter for each hired aircraft (up to the limit of US$3 million for all aircraft hired by the company).

the basis of reciprocity under the rules of the European Civil Aviation Commission (ECAC), of which Turkey is a member. Access to cargo flights is provided under the provisions of Law No. 2920 and relevant articles of the Regulation on Commercial Air Transport Operations, as well as the applicable provisions of bilateral air transport agreements signed by Turkey.[93] An Open Sky Agreement has been concluded between Turkey and the United States, and a *de facto* open sky agreement also exists between Turkey and Germany.[94]

134. Public Law No. 4054 on the Protection of Competition does not grant any special exemptions to the national air transport services industry. No special privileges are granted to the state-owned air companies, except that, where possible, Turkish civil servants are obliged to use the national airline for official travel overseas.

135. Two private-sector ground-handling companies provide services at all airports open to international civil air traffic. Catering services at the international airports are provided by three catering firms of which two are entirely owned by foreigners, and one is a mixed foreign-Turkish partnership. The rates for these services are set by the market.

136. The prices charged by air carriers operating scheduled services, are set by the companies but must be formally approved by the MT (Article 25 of Law No. 2920). The government does not intervene in the pricing of non-scheduled or air taxi services.

137. Imports of a wide range of aircraft-related items (78 items at the four-digit level) are only permitted upon approval by the General Directorate of Civil Aviation in the MT. The purpose of the restriction is, according to the authorities, to assure that the imports are used only in the civil aircraft industry.

(c) Railway and road transport

138. Turkey's railway system consists of over 10,000 km of track.[95] The share of railways in total transport has diminished over the years, to 4% of freight and 2% of passenger transport. The Turkish State Railways (TCDD), a state-owned enterprise affiliated to the Ministry of Transport (MT), has *de jure* monopoly in providing railway passenger and freight transport services. It owns and operates the whole railway system, together with seven ports that have rail access (i.e. Haydarpasa, Mersin, Iskenderun, Derince, Izmir, Samsun, and Bandirma). There are no private rail operators. TCDD has freedom to introduce fares on a market basis or to increase them, after verbal approval by the MT. The construction of new railway infrastructure and ports is the responsibility of the Directorate General of Ports, Railways and Airports Construction of the MT. In 2002, TCDD received government subsidies amounting to TL 266.8 trillion for: track maintenance and repair, in accordance with Law No. 233 and TCDD's main statutes; uneconomic lines, under Decree No. 7-11254 of 23 January 1976; express trains; and ferry traffic on lake Van. Subsidies paid to TCDD totalled TL 197.8 trillion in 2001 (124% of TCDD's revenue for operational activities and 19% of total railway expenditure).

---

[93] Turkey has signed bilateral air transport agreements with 82 countries. Under these agreements 63 (may change seasonally) foreign airlines are operating scheduled services to Turkey; THY is operating scheduled services to 77 cities abroad.

[94] Since the Turkish-German market is crucial due to a large Turkish population living in Germany, the current air transport agreement between the two countries is an open sky agreement, though it is not named so.

[95] During 2001-05, the objective is to set up 185 km of new tracks, renew 1,800 km, and complete 180 km of signalling works and 160 km of electrification (Undersecretariat of State Planning Organization, 2001).

139. The reorganization of TCDD is one of the key areas for reform in Turkey's transport subsector. The main objectives are: increasing the share of rail in total transportation by implementing customer-oriented business strategies, and establishing a sustainable and effective transport infrastructure; enhancing the autonomy of the TCDD; decreasing the consolidated operation ratio (ratio of operating expenses to operating revenues, excluding subsidies) from 4.3 to under 2; cancelling unprofitable local and urban lines; using private sector resources; and aligning the domestic railway transport legislation with the EU *acquis communautaire*. Financial assistance has been requested from the EU to align Turkey's rail transport legislation on that of the EU. The project will cover the management information system (MIS); reorganization of TCDD and of the railway subsector; and TCDD's financial relations with the Government.

140. Turkey has a total highway network of 63,220 km (1,853 km of motorway, 31,319 km of state roads, and 30,050 of provincial roads). The share of highway transport to total freight transport increased from 85% in 1995 to about 90% in 2002; around 96% of passenger transport is by highway. For the purpose of creating a sustainable transport environment in Turkey, a shift from road traffic to rail and maritime means is to be promoted. For this purpose, combined-transport agreements are being signed bilaterally with other countries. The MT is responsible for the regulation of road transport to maintain order and security of transport; to determine the conditions to be applied to carriers agents, brokers, warehouses, and cargo operators; to establish the qualifications, rights and duties of persons employed in the subsector; and to provide inter-operability of road transport with other modes of transport and efficient use of existing capabilities. Road transport in Turkey is by private companies; an operating licence, from the MT, is obligatory. Cabotage is not permitted in road transport.

141. The Law on Highway Transportation, approved by the Turkish National Assembly and published in *Official Gazette* No. 25173 on 19 July 2003, has entered into force. The related regulations (to be adopted by January 2004 at the latest) are aimed, *inter alia*, at increasing efficiency and safety in road transport activities, developing an insurance system for freight and passenger transport, promoting competition in the subsector through more participation by the private sector, and improving the overall road infrastructure.

(v) Tourism

142. Turkey ranks 11th in the world as a tourism earner, with US$11.9 billion of tourism receipts in 2002 (up from US$7.8 billion in 1998). Despite the recent economic crisis and the 1999 earthquake, tourism activities have continued to expand rapidly, especially in Istanbul and on the western and southern coasts. Large numbers of hotels, guest houses, and holiday apartments have been built, but due to the length of the coastline, much of its natural beauty has been preserved. There are also important historical sites. Eco-tourism activities are being introduced. The number of licensed tourist beds rose from 553,090 in 1997 to 619,024 in 2002. In 2002, 62% of visitors came from Europe and OECD countries (mainly Germany, 26.3% of the total). The occupancy rate of hotels was 48.7%.

143. Turkey's tourism policy has three main goals: creating an efficient and internationally competitive subsector with a view to making it more profitable; meeting the requirements of foreign and domestic tourists in terms of overall facilities; and ensuring the continuity of its natural and cultural assets. The Turkish Union of Travel Agencies (TURSAB), established in 1972 according to Law No. 1618, under the purview of the Ministry of Culture and Tourism, is responsible for supervising travel agencies. Within the Ministry of Culture and Tourism there is a section responsible for inspection of hotels, holiday villages, yacht enterprises, travel agencies, the professional organization (Union of Turkish Travel Agencies), and professional tourist guides. Under the Tourism Encouragement Law No. 2634 of 1982 (as amended), tourist regions, areas, and centres were

designated, and investment in tourism facilities is encouraged; the State is in charge of investment in infrastructure.

144. The Turkish Government remains active in the tourism subsector. It grants incentives for tourism investments in accordance with the Tourism Encouragement Law; provides infrastructure and public services for tourism; defines zones with high tourism potential; promulgates designated tourism centres or areas by decree; elaborates and approves land-use plans; conducts environmental controls; promotes the country abroad; carries out research and collects statistics; and provides vocational training. Local administrations are responsible for similar matters at the local level. Investors in the tourism sector also have access to incentives granted under the general investment aid programme (Chapter III(2)(iii)(d)).

145. Foreign companies have increased their role in tourism since the mid-1980s; there is no limitation on foreign investment in the sector. Foreign and domestic companies are allowed to set their own prices. However, the prices must be cleared annually by the Ministry of Culture and Tourism. Enterprises are not required to charge uniform prices.

REFERENCES

European Commission (2002), *2002 Regular Report on Turkey's Progress Towards Accession,* Brussels.

Foreign Economic Relations Board (2002), *Brief Review of the Turkish Energy Sector and Opportunities for Investors*, March 2002, Ankara.

IMF (2002), *Article IV Consultation and First Review under the Stand-By Arrangement with Turkey*, Washington.

IMF (2003), *Fourth Review Under the Stand-by Arrangement with Turkey and Request for Waiver of Performance Criteria*, Washington.

International Energy Agency (2001), *Energy Policies of IEA Countries: Turkey 2001 Review*, Paris.

ITU(2002), *Turkey ICT Profile*, Geneva.

Ministry of Industry and Trade (2002a), *Automotive, Automotive Parts and Components Industry*, Ankara.

Ministry of Industry and Trade (2002b), *Textile and Apparel Industry*, Ankara.

Ministry of Industry and Trade (2003), *Iron and Steel Industry*, Ankara.

OECD (2002a), *Agricultural Policies in OECD Countries: Monitoring and Evaluation,* Paris.

OECD (2002b), *Economic Surveys: Turkey*, Paris.

OECD (2003), *Agricultural Policies in OECD Countries - Monitoring and Evaluation 2003*, Paris.

Privatization Administration (2002), *Privatization in Turkey*, Ankara.

Republic of Turkey (2001), *Turkish National Programme for the Adoption of the Acquis (NPAA)*, Ankara.

Republic of Turkey (2002), *Pre-Accession Economic Programme 2002*, Ankara.

Undersecretariat of State Planning Organization (2001), *Long-Term Strategy and Eighth Five-Year Development Plan 2001-2005, Ankara.*

Undersecretariat of State Planning Organization (2002), *Pre-Accession Economic Programme 2002, Ankara.*

Undersecretariat of Treasury (2001), *Reform Programme for the Improvement of the Investment Environment in Turkey (unofficial translation)*, Ankara.

World Bank (2002), *Turkey: country brief*, Washington.

WTO (1998), *Trade Policy Review: Turkey*, Geneva.

WTO (2000), *Annual Report*, Geneva.

WTO (2002), *Annual Report*, Geneva.