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Trade Policy Review Body

TRADE POLICY REVIEW

Report by the Secretariat

TURKEY

This report, prepared for the fourth Trade Policy Review of Turkey, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from Turkey on its trade policies and practices.

Any technical questions arising from this report may be addressed to Ricardo Barba (Tel. 022 739 5088)

Document WT/TPR/G/192 contains the policy statement submitted by Turkey.

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SUMMARY OBSERVATIONS

(1) THE ECONOMIC ENVIRONMENT

1. Following its economic crisis in 2001, Turkey has been implementing an ambitious reform programme, notably on the fiscal, privatization and social security fronts. The programme has been successful in stabilizing the economy, and has contributed to an annual average real GNP growth rate of 7.4% during 2002-06, a reduction in the inflation rate from 29.7% in 2002 to 9.6% in 2006, and a fall in the overall fiscal deficit, from 12.5% to 0.8% of GNP over the same period. Recent reforms have also been aimed at bringing Turkey closer to its goal of accession to the European Communities (EC).

2. Nonetheless, Turkey still faces key structural problems, including its widening current account deficit (0.8% of GNP in 2002 and 8.2% in 2006), which could make the economy vulnerable to external shocks. Unemployment also remains high (9.9% in 2006, against 10.3% in 2002), and key industries continue to be dominated by state-owned enterprises (SOEs), such as Turkish Petroleum Company (TPAO), Turkish Hardcoal Enterprises (TTK), Turkish Electricity Transmission Company (TEIAS), and Turkish State Railways.

3. On 1 January 2005, the new Turkish lira (YTL) was issued after the old Turkish lira was redenominated, dropping six zeros. The Central Bank of the Republic of Turkey (CBRT) moved from a crawling peg to a floating exchange rate system on 22 February 2001. During 2002-05, as a result of record high capital inflows, the real effective exchange rate appreciated over 10% per year on average. At the end of 2006, however, interest rate hikes in major industrial countries prompted a real depreciation of the YTL estimated by the CBRT at 6.6%.

4. Since its last TPR in 2003, Turkey has adopted measures to improve its investment climate, including through the establishment of the Turkish Investment Support and Promotion Agency in June 2006. As a result, Turkey's annual FDI inflows averaged US$4,757 million over 2003-05, and reached a peak estimated at around US$20,000 million in 2006. Nevertheless, some restrictions to foreign investment have been introduced over the last few years on real estate acquisition, and a number of sectors are still subject to FDI restrictions (e.g. broadcasting, fishing, petroleum, mining, and financial services).

5. Turkey's merchandise exports have more than doubled since 2002, with the manufacturing sector contributing over 80% to its total merchandise exports, followed by agriculture, and mining products. More than half of Turkey's exports go to the EC; Germany remains the major export market. Turkey's merchandise imports have also more than doubled since 2002, with manufactured goods representing about two-thirds of total merchandise imports, followed by mining, and agriculture products. Turkey continues to be a net exporter of services, with a surplus of US$13.4 billion in 2006 (up from US$7.9 billion in 2002).

(2) INSTITUTIONAL FRAMEWORK

6. Formulation, administration, and coordination of Turkey's trade policy are the responsibility of the Undersecretariat for Foreign Trade (UFT). Depending on the nature of the issue, the UFT consults with relevant ministries and other institutions that also take part directly or indirectly in foreign trade policy formulation and/or implementation. The views of the private sector, including NGOs, are customarily taken into consideration throughout the process (although this is not legally required). A WTO Coordination Committee, headed by the UFT with the participation of the private sector and NGOs, has been established.

7. The WTO Agreements and Turkey's current trade relations with the EC are the main factors influencing the Turkish trading system. Over the last few years, Turkey has amended its legislation on, *inter alia*, intellectual property rights, and enacted new

legislation, notably on safeguards, to seek conformity with its obligations under the EC *acquis communautaire* and the WTO Agreements.

8. A Contracting Party to the GATT since 17 October 1951, Turkey became an original Member of the WTO on 26 March 1995. It accords at least MFN treatment to all its trading partners. Turkey is not a signatory to the Plurilateral Agreements that resulted from the Uruguay Round; it is an observer to the Plurilateral Agreements on Government Procurement and Trade in Civil Aircraft, and party to the Information Technology Agreement (ITA). Turkey has been involved in several cases under the WTO Dispute Settlement Mechanism.

9. Turkey has a customs union agreement (mainly on non-agricultural products) with the EC, a free-trade agreement with EFTA (also on non-agricultural goods), and nine bilateral agreements in force, of which six were concluded during the period under review, with Bosnia-Herzegovina, Egypt, Morocco, Palestinian Authority, Syria, and Tunisia; the others being with Croatia, Israel, and Macedonia (FYR). In addition, a bilateral trade agreement with Albania has been signed and is due to enter into force soon, while negotiations continue with other countries. Turkey is also part of the Euro-Mediterranean Partnership, aiming at establishing a free trade area in the region by 2010; the Economic Cooperation Organization (ECO); and the Black Sea Economic Cooperation (BSEC).

(3) TRADE POLICY INSTRUMENTS

10. Goods imported into Turkey may be subject to various charges: customs duties (customs tariffs, and the Mass Housing Fund levy); and internal taxes (excise duties also known as the Special Consumption Tax, the VAT, and the stamp duty). As a result of its participation in the customs union with the EC, Turkey has, since 1996, based its tariff on industrial products and the industrial components of processed agricultural products (imported from third countries) on the EC common external tariff. Turkey's tariff comprises *ad valorem* (97.9% of total lines, down from 98.5% in 2003) and non-*ad valorem* rates (specific, mixed, compound, and variable duties), applying to 378 items at the HS twelve-digit level, up from 284 in 2003. Using the WTO definition, the average applied MFN tariff is substantially higher in agriculture (47.6%) than on non-agricultural products (5%).

11. Some 46.3% of Turkey's tariff lines are bound. The simple average bound rate is 33.9%, and the simple average applied MFN rate 11.6% in 2007 (11.8% in 2003); the ceiling bound rates thus leaves Turkey ample margin for tariff increases. Moreover, the imposition of non-*ad valorem* tariff rates does not ensure compliance by Turkey with its WTO binding commitments made at *ad valorem* rates. In addition to applied and bound tariffs, Turkey also maintains the so-called statutory tariff. Indeed, the Government can replace rates of the applied MFN tariff by 150% of the corresponding rates of the statutory tariff, with a view to ensuring higher protection to local industries. In the case of products subject to tariff bindings, when the new rate (i.e. 150% of the statutory tariff rate) is higher than the corresponding bound tariff rate, then the latter applies. These three categories of tariff further complicate the regime and make it more unpredictable.

12. Turkey remains an important user of anti-dumping measures. As of August 2007, it had 93 definitive anti-dumping duties in force (compared with 27 at the end of 2002). Turkey has increasingly made use of safeguards during the last few years, imposing definitive measures on products such as motorcycles, salt, steam irons, vacuum cleaners, and footwear. Turkey has never initiated or imposed a countervailing measure.

13. Import licences are maintained on tariff quota administration, health, sanitary, phytosanitary and environmental grounds. Turkey has continued harmonizing its regime on standards and technical regulations with

that of the EC. Export promotion is one of the main objectives of Turkey's trade regime. The incentives system comprises duty and tax concessions, finance, marketing assistance, and promotion. There are 20 free zones in Turkey (compared with 21 in 2003); in February 2004 new arrangements were made regarding the tax incentives provided under this regime. On the basis of the government procurement framework, supplies of Turkish origin are eligible for price preferences of up to 15%. Turkey has made progress in enforcing its TRIPS legislation over the last few years. Nevertheless, piracy and counterfeiting of copyright and trademark materials have been reported as problematic.

(4) SECTORAL POLICIES

14. Since its previous TPR, Turkey has taken measures to tackle structural problems in some services subsectors, notably the monopoly of Turk Telekom over fixed telephone line, domestic long-distance and international telephony services ended on 31 December 2003. Nevertheless, various SOEs continue to dominate services activities, and in some cases still operate under monopoly, or hold exclusive rights in certain branches of the services sector, such as Turkish State Railways. Under the General Agreement on Trade in Services (GATS), Turkey scheduled commitments in several service categories, and maintains some MFN exemptions. It has also tabled its initial and revised conditional offers in the ongoing services negotiations.

15. Manufacturing is a major beneficiary of state aid. It is also the main beneficiary of various incentive schemes (duty and tax concessions in particular), as well as export credits and guarantees. MFN customs tariffs on manufactured goods (Major Division 3 of ISIC Revision 2) average 10.9% (down from 11.1% in 2003); relatively high rates (ranging up to 225%) continue to apply to some processed food products. The tariff structure does not encourage investment in certain manufacturing activities, such as chemical and plastic industries where the tariff displays negative escalation. Furthermore, high effective protection of industries such as textile and apparel, beverages, and tobacco products hampers their competitiveness.

16. Turkey is implementing a wide-ranging programme to restructure its agriculture, so as to reduce the burden of support on its economy and move its policies closer to those of the EC's. Some of the potentially most production-distorting measures in the sector (e.g. administered output prices) are being phased out and replaced by a less distortionary direct support system. Nonetheless, the simple average applied MFN tariff in agriculture is 28.3%, up from 25% in 2003. This relatively high tariff protection, and the limited coverage of agricultural products under Turkey's preferential trade arrangements (with products generally subject to preferential tariff quotas) impedes the exposure of the sector to greater competition.

17. In mining and quarrying, customs tariffs average 0.3% (against 0.2% in 2003); imports of electricity are duty free. Several new energy-related laws have been enacted over the last few years aiming to further liberalize the subsector. The lack of adequate investment, together with large energy waste, still causes power shortages in some areas. Increasing Turkey's electricity generation capacity continues to be a top priority for the Government, which has open all segments of the electricity subsector (except transmission) to direct private participation.

(5) TRADE POLICY AND TRADING PARTNERS

18. Turkey is pursuing a strategy of trade liberalization through negotiations at the multilateral, regional, and bilateral levels. It is actively participating in the Doha Development Agenda. Nonetheless, Turkey's membership in several arrangements makes its trade regime complex and seemingly difficult to manage. Future trade agreements could further complicate the trade regime and detract from multilateral efforts, given Turkey's

limited resources as a single country. Moreover, delays in alignment of its preferential trade regime on the EC's may lead to trade diversion to the detriment of Turkey's exports. Further multilateral trade liberalization, both on goods and services, could reduce the need for preferential trade negotiations.

19. Turkey is taking steps to move towards a competition-based and consumer-welfare oriented economy to overcome the deep dualities between its few highly productive enterprises and its large number of low-productivity companies. However, the high level of tariff protection in agriculture has limited the exposure of the sector to competition, and has made it difficult for its products to be exported or to be used as inputs in the production of export goods without support, including subsidies. This could well hinder Turkey's long-term growth performance.

20. An acceleration of Turkey's structural reforms, including completion of the privatization agenda, sectoral reforms (e.g. labour, education, health), extension of the scope of tariff binding commitments, reduction of bound rates, and further tariff rationalization would contribute to better resource allocation. This could attract larger FDI inflows, avoid falling back into the boom-bust cycle of the past, increase the predictability of the trade regime, reduce the need for concessions, and enhance the integration of Turkey into the multilateral trading system. Trading partners could help by ensuring that their markets are fully open to goods and services of interest to Turkey.