IV. TRADE POLICIES BY SECTOR

(1) OVERVIEW

1. 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 (Major Division 1 of ISIC Revision 2) is 28.3%, up from 25% in 2003. This relatively high tariff protection and the limited coverage of agricultural products in Turkey's preferential trade arrangements, with products generally subject to preferential tariff quotas, impede the exposure of the sector to greater competition.

2. In mining and quarrying, customs tariffs average 0.3% (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 high energy wastage, still causes power shortages in some areas. Increasing the country'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 private participation.

3. Manufacturing is the 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 average 10.9% (down from 11.1% in 2003); relatively high rates (to 225%) continue to apply to some processed food products. The tariff structure does not encourage investment in certain manufacturing activities, for example, chemical and plastic industries, where the tariff displays negative escalation. Furthermore, high effective protection of industries such as textiles and apparel, beverages, and tobacco products hampers their competitiveness.

4. Since its previous TPR, Turkey has taken measures to tackle structural problems in some services subsectors, notably the monopoly of Turk Telekom over fixed line, domestic long-distance and international telephony services ended in on 31 December 2003. Nevertheless, some state-owned enterprises (SOEs) continue to dominate services activities, for example, postal services, and air, rail, and maritime transport. Under the GATS, Turkey scheduled commitments in several categories (AIV.2), and maintains some MFN exemptions (Table AIV.3). It has also tabled its initial and revised conditional offers in the ongoing services negotiations.

(2) AGRICULTURE AND RELATED ACTIVITIES

(i) Main features

5. Agriculture remains a key sector in the Turkish economy (Chapter I(1)). The average farm has around 6 ha, and arable land in each farm is generally divided into a large number of parcels. Despite the recent emergence of more commercial farms, the bulk of farming has remained small and family-owned, highly fragmented, and capital-low; it continues to use only elementary technologies. The majority of the sector is informal.[1]

6. Turkey is self-sufficient in food, and has increased its exports of some agricultural products. It is a key player in its traditional specialities (hazelnuts, oriental tobacco, dried fruit), and in some

[1] Although participation in the self-employed social security scheme is mandatory, 91% of farmers do not participate, and only a small minority pay income taxes (OECD, 2006b).

new areas (tomatoes, potatoes, watermelons). Nonetheless, its share in world agricultural markets is only about 1%, well below potential, given that it has more arable land than any West European country and a temperate climate. Crops contribute about 65% of total agricultural production; the main crops are cereals (wheat, barley, and maize); cash crops (sugar beet, cotton); and fruit and vegetables (grapes, citrus fruit, apples, watermelon, tomatoes, potatoes, dry onion). Agriculture has the lowest productivity among Turkey's economic sectors.[2]

7. The livestock sub-sector, consisting mainly of cattle, buffalo, sheep, and goats, includes traditional and commercial activities. Turkey is implementing an animal identification system; 10 million bovines have been registered. The main objective is to increase livestock production in order to provide adequate and balanced nutrition for the population. Total meat production averaged some 430,000 tonnes during 2000-06[3], while milk production remained constant at around 10 million tonnes.

8. 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], averaged 640,000 tonnes over 2000-06; it is composed largely of marine fish (about 70% of the total in 2006), aquaculture (15%), freshwater fish (8%), and other sea products (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-seas fishing has diminished considerably due to pollution, ecological changes, and unsustainable use of resources.

9. Forests cover 20.7 million hectares or 26.9% 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. About 99.9% of forest lands and resources belong to the State; the area of private forests is only about 20,000 ha. Some 9% of the afforested areas were destroyed by fires during 2001-05. The main problems in the subsector include incomplete cadastral works, deficiency in specialized technical staff and workers, limited number of national parks and similar protected areas, low levels of annual reaforestation to avoid erosion and ensure long-term balance in wood supply and demand, uncertainties in management targets, delays in regeneration works, and inadequate financing.[5]

(ii) Policy developments

10. 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 improving efficiency, productivity, quality, and competitiveness. Some of Turkey's main targets for improving efficiency in agriculture under its Ninth Development Plan 2007-13 are shown in Table IV.1.

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[2] Labour productivity in agriculture is about one third of the average for the whole economy (OECD, 2003).

[3] This figure excludes the meat consumed in rural areas.

[4] Rainbow trout, sea bass, sea bream, and bluefin tune are the main species cultured. Small numbers of carp, mussels and shrimp are also farmed.

[5] State Planning Organization (2006).

Table IV.1
Agricultural structure, 2006 and 2013

	2006	2013
	Per cent	
The share of animal production in total agricultural production	28.0	37.0
Percentage of certified cereal (wheat-barley) seed usage	30.0	50.0
Proportion of cultured and cross bred to total cattle stock	67.0	77.0
Proportion of organic agricultural to total agricultural land	1.0	3.0
	Million hectares	
Irrigation area (net cumulative)	2.55	3.00
Land consolidation activities (cumulative)	0.60	1.27
Industrial and soil protection plantation (cumulative)	2.60	3.30

Source: State Planning Organization (2006), *Ninth Development Plan 2007-13,* Ankara.

11. The main policy developments since the last TPR have been the extension of the 2001-05 Agricultural Reform Implementation Project (ARIP) to the end of 2008, with the addition of the Rural Development Investment Supporting Programme and Village-based Participatory Investment Programme[6], Land Consolidation, Conservation Reserve Payment (CATAK), the launching of the Agricultural Strategy Paper 2006-10 (ASP), and the adoption, in 2006, of a new Agricultural Law (No. 5488) to implement the ASP and move Turkey's agricultural policies closer to those of the EC.

12. Under the ARIP, measures are being taken in four main areas[7]: (i) phasing out price support and credit subsidies, and replacing them with a less distortionary direct income support (DIS) system to farmers, based on a uniform per-hectare payment (about US$90/ha) rather than on inputs or output, and on the National Farmer Registration System (NFRS) initiated in 2001[8]; (ii) withdrawing the State from direct involvement in crops production, processing, and marketing; (iii) reducing output intervention purchases financed from the budget leading to price cuts[9]; and (iv) one-time grants made available to farmers switching out of crops suffering excess supply, such as hazelnuts and tobacco, to help cover their transitional costs, and facilitate the transition to efficient production patterns.[10]

13. With CATAK, Turkey aims, *inter alia*, to ensure proper agricultural policies in vulnerable areas (i.e. areas subject to toxic residuals and/or erosion, and with water and environmental pollution); and increase farmers' income levels. The total cost of CATAK is US$9 million (fully financed by

[6] Under the Rural Development Investment Supporting Programme and Village-based Participatory Investments Programme, producers are supported for certain investment projects (e.g. irrigation and infrastructure facilities). The Rural Development Investment Supporting Programme is financed through the general budget and is implemented in 65 provinces, while the Village-based Participatory Investments Programme is supported by the World Bank and implemented in 16 provinces.

[7] These measures were introduced in 2002 and accelerated in 2003, the first year of full implementation of ARIP. For a full description of ARIP, see WTO (2003).

[8] More than 2.75 million farmers (89% of the total), and 17 million hectares (80% of total agricultural land) have been registered by the NFRS for receiving DIS payments. About 10 million people benefit from NFRS. DIS has become the major support instrument in Turkey's agriculture, accounting for about 80% of the total support provided to agricultural producers in monetary terms (OECD, 2006a).

[9] Targeted price cuts were as large as 20-30% for most products. Intervention prices were to be reduced by 45% for wheat, the main commodity, within two years (WTO, 2003).

[10] The cultivated areas for hazelnuts and tobacco are to decrease by about 16,000 ha and 9,000 ha, respectively. The hazelnut and tobacco programmes are to be discontinued by the end of 2007. Funding for transition payments to help farmers switch from some commodities was fixed at YTL 298 million for 2001-05 (OECD, 2005a).

World Bank funds) for 2005-08; this is being used in four different regions with a total land area of 5,000 ha.[11] In 2004, Turkey adopted its ASP, which fixed the budgetary funds available for the sector to around 1% of GNP, and targeted the allocation of these funds in 2010 as follows: 45% for DIS payments; 13% for deficiency payments; 12% for livestock support; 10% for rural development support; 5% for compensatory payments; 5% for ÇATAK; 5% for crop insurance support; and 5% for other supports.[12]

14. Agricultural Law No. 5488 puts emphasis on increasing productivity and ensuring food supply, and makes the competitiveness and modernization of the sector a priority. It also creates the legal basis for certain management systems (Integrated Administrative Control System, Farm Accountancy Data Network) necessary for implementation of the *acquis communautaire*; nonetheless, the Law moves Turkey further away from the principles of the EC's reformed Common Agricultural Policy (CAP) by defining support linked to production as a key instrument of agricultural policy.[13] For a more market-based agricultural sector in Turkey, particular attention is needed in technology transfer, irrigation, land consolidation, competition, financing, and easing the social costs of adjustment.[14]

15. In 2004, the Agricultural Producer Unions Law (No. 5200) came into effect with the objective of improving farmers organizations. The Agricultural Insurances Law (No. 5363) was enacted, in 2005, to protect farmers and their production levels against risks. The closing of the General Directorate of Rural Services, in 2005, brought about the need for additional measures to, *inter alia*, implement land consolidation, drainage, soil protection, and ground water irrigation investment.[15]

16. The largest purchasing agencies, e.g. the Turkish Grain Board (TMO), the Turkish Sugar Factories Corporation (TSFAS), the Directorate-General for Tea Enterprises (CAYKUR), and the tobacco company TEKEL, are still state-owned. TEKEL is in the privatization portfolio (Chapter III(4)(ii)). In 2002, most administered prices were abolished. However, these agencies continue to set prices before the purchasing campaign[16]; during 2003-04, purchase prices increased by around 23% for white barley, and 14% for wheat (white and red Anatolian), well above the inflation rate. According to the authorities, in the following years the purchase prices increased in line with the inflation rate.

17. Farmers still benefit from loans extended at concessional rates. A credit arrangement in the form of a revolving fund at an interest rate of 13.125% can be used by the Agricultural Sales Co-operatives (ASC) and their Unions (ASCU) to purchase selected crops and cereals from producers. The overall amount of the fund is around YTL 640 million (including the extended credits). The loans are channelled through the state-owned Ziraat Bank (for hazelnuts, cotton, sunflower seeds, figs, raisins, olives, and olive oil, etc.). In addition, Ziraat Bank extends credit facilities for fisheries and forestry activities.

18. In 2004, 26,168 ha of the area covered by irrigation schemes operated by the State Hydraulic Works (DSI) was transferred to farmers' cooperatives and water users' associations, which now

[11] The regions are: Seyfe Lake; Kovada Lake Canal Area; Sultan Marshes; and Eregli Marshes. CATAK started in 2006 as a pilot study. As of December 2006, about US$540,000 had been disbursed on CATAK of ARIP loan funds.
[12] MARA Agriculture Strategy Paper 2006-10 (No. 2004/92 of 2004).
[13] European Commission (2006).
[14] OECD (2006b), p. 189.
[15] State Planning Organization (2006).
[16] TMO, for example, is responsible for intervention purchases, and sets minimum purchase prices for cereals.

manage over 40% of the total irrigated area.[17] Farmers on the DIS payment register also receive a "diesel payment" per ha (to a maximum of 50 ha) to cover 35% of the country average farmers' consumption of fuel (80 litres/ha).[18] Farmers also receive an area-based payment for fertilizer. Electrical power used in agriculture (including by poultry producers and for aquaculture) is no longer subsidized. Overall, input subsidies fell from 30% of total agricultural subsidies in 1986-88 to less than 2% in 2003-05.[19]

19. Pruning and premium payments (per kg) to tea growers were introduced in 2005.[20] The a tea leaf price premium is paid to tea producers whose fields are licensed; the pruning payment based on the average yield, is to compensate for 70% of the loss of farmers' income due to trimming (pruning) of tea fields. In 2006, pruning and premium payments amounted to YTL 39 million and YTL 82 million, respectively. In 2004, a total of YTL 4 million of compensatory payments were granted for the first time to sugar beet growers for losses associated with the production quota, which has been at 2.2 million tonnes since 2002.[21] A price premium for meat producers was granted for the first time in 2004.

20. Livestock incentive payments, such as the artificial insemination premium and milk incentive premium, are paid to farmers to, *inter alia*, support livestock production, raise product quality, upgrade technology, improve food safety conditions, and offer consumers better quality products. On artificial insemination, YTL 15.8 million in 2005 and YTL 25.4 million in 2006 were paid. The milk incentive premium reached YTL 115.7 million in 2005 and YTL 161.7 million in 2006.

21. Deficiency payments (i.e. a price support) are granted for several agricultural products, for example, olive oil, cotton, oilseeds, wheat, and canola.[22] In addition, direct payments are given to producers of, *inter alia*, silk cocoon and mohair.

22. Turkey's WTO commitments on export subsidies include 44 agricultural product groups.[23] Export subsidies are set at 10% to 20% of the export values, on 14% and 100% of exports of eligible products (Table IV.2). Since Turkey's last TPR, export subsidies have been eliminated for potatoes and onions (dried), and introduced for honey and edible offal of poultry (Chapter III(3)(iv)). According to the authorities, the main policy objective regarding export subsidies is to develop Turkey's export potential in processed agricultural products.

[17] Users pay an annual lump sum (negligible fee) for the operation and maintenance of irrigation schemes by the DSI.

[18] During 2003-05, farmers received YTL 39/ha as diesel payment. In 2006, no diesel payment was made, while in 2007 payments varied according to products. YTL 54/ha was paid for oily and seedy plants; YTL 28.8/ha for cereals, feeding plants, leguminous and lumpy plants; and YTL 18/ha for vegetables, fruits, special forests, fields, and meadows.

[19] OECD (2006b).

[20] Pruning payments are made under Decision of the Council of Ministers No. 5096, published in the *Official Gazette* of 27 December 1993, amended by Decree Law No. 7758 of 23 August 2004. According to Articles 2 and 3 of the Decree Law, licensed tea gardens are subject to pruning for 7 years (in ratio of 1/7 of the tea garden each year), to produce qualified tea leaves in compliance with maintenance and leaf production techniques. The premium payment is decided each year through decisions of the Council of Ministers.

[21] To receive this payment, sugar beet growers must grow certain crops (OECD, 2005a).

[22] Deficiency payments are the difference between production costs and market price.

[23] Due to budgetary restraints, Turkey generally gives export refunds only to 16 products/ product groups: cut flowers, frozen vegetables, dehydrated vegetables, frozen fruit, preserved vegetables and fruit, tomato paste, honey, homogenized fruit preparations, fruit juice, olives and olive oil, prepared or preserved fish, poultry meat, eggs, preserved poultry meat products, chocolate and other food preparations containing chocolate, biscuits, waffles, pasta.

Table IV.2
Export subsidies by agricultural product, 2007

Product	Rate (US$/tonne)	Share of exported quantity eligible for the subsidy (%)
Cut flowers (fresh)	205	37
Vegetables, frozen (exc. potatoes)	79	27
Vegetables (dehydrated)	370	20
Fruits (frozen)	78	41
Preserves, pastes	75	51
Honey	65	32
Homogenized fruit preparations	63	35
Fruit juices (concentrated)	150	15
Olive oil	125	100
Prepared or preserved fish	200	100
Meat of poultry (excl. edible offals)	186	14
Preserved poultry meat products	250	40
Eggs	US$15/1,000 pieces	78
Chocolate and other food preparations containing chocolate	119	48
Biscuits, waffles	119	18
Macaroni vermicelli	66	32

Source: WTO document G/SCM/N/123/TUR/Add.1, 26 January 2006, and Decree No. 1/2007.

23. Exporters must present relevant documents to the Exporters Associations authorized by the Undersecretariat of Foreign Trade (UFT) for refund application (e.g. customs declaration, invoice). Products must leave the customs territory of Turkey within the implementation period of the Decree, which is published annually or for a specific time period. Products must be of Turkish origin. Export refunds are not differentiated on the basis of destinations. The products must have sound and marketable quality to be eligible for the export refund: if the exported products are returned to Turkey or rejected by importing countries for any reason the refunds are taken back.[24]

24. According to the OECD, producer subsidy equivalents (PSEs), which capture the annual value of transfers under agricultural policies, as percentages of total value of production, rose from 16% in 1986-88 to 26% in 2003-05; the implicit tax on consumers, as measured by consumer subsidy equivalents (CSEs), which indicate the annual value of transfers to consumers under agricultural policies, also increased (in absolute value), from -16% in 1986-88 to -23% in 2003-05; while the general services subsidy equivalent (GSE), which estimates the annual monetary value of gross transfers to general services provided to agriculture (e.g. research, infrastructure, inspection, and marketing and promotion), decreased to 9% in 2003-05 from 10% in 1986-88.[25] The total support to agriculture (TSE), as a percentage of GDP, increased from 4% during 1986-88 to 4.2% in 2003-05; after peaking at 5.1% in 2003, it decreased to 3.8% in 2005 (Table IV.3).[26]

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[24] Decree No. 2007/1 (Export Subsidy Programme for Agricultural Products), published in the *Official Gazette* of 22 March 2007, applies throughout 2007.

[25] 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. Unlike the PSE and CSE, the GSE transfers are not received by producers or consumers individually, and do not directly affect farm receipts (revenue) or consumption expenditure, although they affect the production and consumption of agricultural products (OECD, undated).

[26] 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.

Table IV.3
Transfers associated with agricultural policies, 1986-88, and 2003-05

		1986-88	2003-05	2003	2004	2005[a]
PSE	€ million	2,873	9,593	9,862	9,055	9,862
	US$ million	3,169	11,550	11,142	11,250	12,257
	(%)[b]	16	26	28	25	25
CSE	€ million	-2,224	-7,152	-7,825	-6,395	-7,237
	US$ million	-2,446	-8,593	-8,840	-7,946	-8,994
	(%)[c]	-16	-23	-26	-21	-21
GSE	€ million	277	916	871	534	1,341
	US$ million	309	1,105	984	664	1,667
	(%)[d]	10	9	8	6	12
Total transfers [e]	€ million	3,149	10,509	10,734	9,589	11,203
	US$ million	3,478	12,655	12,126	11,914	13,924
	(% of GDP)	4.0	4.2	5.1	3.9	3.8
Memo item: Total transfers for all OECD countries	€ million	276,039	308,139	309,969	304,464	309,983
	US$ million	303,771	371,243	350,183	378,281	385,264
	(% of GDP)	2.3	1.1	1.1	1.1	1.1

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 GSE as a percentage of total transfers (valued at domestic producer prices).
e Total transfers are not the sum of PSE, CSE, and GSE; they cover the total value of production and include not only transfers to agriculture, as measured by the PSE, CSE, and GSE, but also other transfers associated with agricultural policies.

Source: OECD (2006), *Agricultural Policies in OECD Countries: At a Glance,* Paris.

25. Almost 100% of Turkey's producer support up to 2000 was aid that potentially has the most production distorting effects (market price support, payments based on output, and input subsidies), benefited mainly larger farms, and increased the pressure on the use of natural resources (such as water). This share fell to 83% in 2003-05 thus increasing the exposure of farmers to world market signals.[27]

26. All farmers are subject to the withholding tax at 2% on the sale value of livestock products, and 4% on the sale value of other agricultural products. When the agricultural product is sold through trading stocks, the withholding rates are halved. 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.

27. Tariff protection for agriculture remains relatively high. The simple average MFN tariff in agriculture (Major Division 1 of ISIC Revision 2) is 28.3% (up from 25% in 2003, partly due to the increase in the tariffs on grains and vegetable oils). Imports of agricultural products, such as live animals for breeding purposes are duty free. Tariff rates on some processed meat products range up to 225%, while some dairy products (e.g. buttermilk, and cream) carry duties up to 170% (Table AIV.1). Moreover, the specific, compound, and variable duties apply mainly to agricultural products (Chapter III(2)(iii)(b)).

28. 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 because the authorities estimated that support – as

[27] Prices received by farmers in 2003-05 were about 32% higher than those in the world market (OECD, 2006a).

measured by the Aggregate Measurement of Support (AMS) - was below the de minimis level of 10%, for which no reduction commitments were required.[28]

29. Some Members have raised concerns in the WTO Committee on Agriculture about Turkey's new import regime for rice[29]; and issues related to the 2005 and 2006 tariff rate schedules published in the Turkish *Official Gazette*.[30] Turkey has been increasingly challenged on animal disease control measures over the last few years (Chapter III(2)(vi)(d)).

30. At the regional level, in addition to non-agricultural products, Turkey and the EC have agreed to work towards bilateral free-trade in agricultural goods (Chapter II(3)(ii)(a)). In line with the CUD, processed agricultural products imported into Turkey from the EC are subject to customs duties comprising an industrial and an agricultural component: all industrial components enjoy duty-free treatment and customs duties applicable to agricultural components are below MFN rates[31]; a group of processed agricultural products are subject to zero duty but under quota. The limited coverage of agricultural products under the preferential regime with the EC 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

31. The mining and quarrying sector contributed 1.1% to real GNP in 2006 (1.2% in 2002). Turkey has limited reserves of oil and natural gas, but significant proven reserves of lignite, as well as borax, boron, chromite, magnesite, and marble. Renewable combustibles, particularly wood, and the country's water courses are also important indigenous energy resources. The public sector accounts for almost 70% of value added in the mining subsector, while the private sector has increased its role in energy asset management and operations, especially in the generation segment of the electricity market. Local production of energy in Turkey meets approximately 29% of demand.[32]

32. There have been no major changes to the institutional framework in the mining subsector. Policy issues related to energy and mining are the responsibility of the Ministry of Energy and Natural Resources (MENR). The General Directorate of Mining Affairs (GDMA) is responsible for administering the Mining Law on behalf of the MENR, while the Energy Market Regulatory Authority (EMRA) has been the energy market regulator since 2001.[33] The Undersecretariat of State Planning Organization (SPO) evaluates Turkey's general energy needs. Several public institutions are

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[28] 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 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.

[29] WTO documents G/AG/R/39 of 16 July 2004; G/AG/R/41 of 17 February 2005; G/AG/R/42 of 25 May 2005; and G/AG/R/44 of 25 November 2005.

[30] WTO document G/AG/R/46, 11 July 2006.

[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] Ministry of Energy and Natural Resources online information. Viewed at: http://www.enerji.gov.tr/belge/butce.doc [14 August 2007].

[33] EMRA is in charge of preparing and implementing secondary legislation (e.g. regulations); 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.

engaged in mining and energy activities, which causes inefficient coordination within the sector, and sometimes makes it difficult to solve problems.[34] However, agencies with responsibility for the sector are liaising, with a view to improving coordination and efficiency.

33. Customs tariffs average 0.3% in mining and quarrying (Major Division 2 of ISIC Revision 2), and range from zero on, *inter alia*, sulphur, ores and concentrates, coal, lignite, crude petroleum, natural diamonds and precious stones, to 20% on salt and pure sodium chloride (HS 250100). Imports of electricity are duty free. However, 18% VAT is charged on electricity.

34. A 0.05% service commission is paid to the Exporters Union for electricity exports realized by TETAS.

(ii) Mining

35. Turkey has a diverse and dynamic mining subsector. Excluding petroleum and coal, it is estimated that there are over 4,400 mineral deposits in Turkey[35], and approximately 77 economically exploitable minerals.[36] In 2005, 53 different minerals were produced.[37] Turkey possesses two thirds of the world's boron reserves, and is the largest producer of boron ore[38]; 6% of the world's chromite reserves; and 40% of world's marble reserves. Known mineral reserves in Turkey are valued at approximately US$2 trillion.[39] During 2003-2004, 1,136 new mining and quarrying companies were established.[40] Mining exports grew by an average of 31% during 2002-06, and constituted 2.4% of Turkey's total merchandise exports in 2006.[41]

36. Turkey's main objectives in mining are to produce competitive and safe raw materials, and to increase value added by processing. Under Turkish law, "underground resources" are subject to the exclusive ownership and disposition of the State and are not considered as a part of the land where they are located. The State may issue licences to private entities for exploration and operation of mines for specific periods and purposes; royalties must be paid to the State.

37. Turkey has undertaken a series of reforms in the mining subsector. In 2003, the Parliament enacted a new foreign investment law to encourage both local and foreign investment, including in mining.[42] Foreigners may invest in the mining subsector only through locally incorporated companies (Chapter II(4)). However, exploration and exploitation of boron, uranium and thorium are reserved for the Government.

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[34] WTO (2003).

[35] Undersecretariat for the Prime Ministry for Foreign Trade. Viewed at: http://www.igeme.org.tr/eng/turkey/industry.pdf [13 June 2007].

[36] Istanbul Technical University. Viewed at: http://www.humboldt-foundation.de/de/netzwerk/veranstalt/hoersaal/2006_istanbul/oenal.pdf [15 June 2007].

[37] Undersecretariat for the Prime Ministry for Foreign Trade. Viewed at: http://www.igeme.org.tr/eng/turkey/industry.pdf [14 June 2007].

[38] United States Geological Survey report on boron production in the United States. Viewed at: http://minerals.usgs.gov/minerals/pubs/commodity/boron/boronmcs07.pdf [13 June 2007].

[39] Undersecretariat for the Prime Ministry for Foreign Trade. Viewed at: http://www.igeme.org.tr/eng/turkey/industry.pdf [15 June 2007].

[40] Report on the mineral industry of Turkey by the United States Geological Survey for 2003-05. Viewed at: http://minerals.usgs.gov/minerals/pubs/country/2003/tumyb03.pdf; http://minerals.usgs.gov/minerals/pubs/country/2004/tumyb04.pdf; and http://minerals.usgs.gov/minerals/pubs/country/2005/tumyb05.pdf.

[41] Undersecretariat for the Prime Ministry for Foreign Trade. Viewed at: http://www.igeme.org.tr/introeng.htm.

[42] Undersecretariat of State Planning Organization (2006).

38. Turkey made several changes to its mining regime, through Mining Law No. 5177 of 2004, which amended Mining Law No. 3213 of 1985. Law No. 5177 categorizes minerals into five groups: (i) sand and gravel; (ii) marble and other similar decorative stones; (iii) salts in solution form that can be obtained from sea, lake, and spring waters; (iv) energy, metal, and industrial minerals; and (v) semi-precious stones and gemstones.

39. Mining activities are regulated by the GDMA, which also issues mining licences. There are three types of licence: exploration licence/certificate; operation licence; and operation permit. Exploration licences are valid for three years. Mining Licences (or "certificates" for V minerals) may be granted to Turkish nationals or to any foreign company established in Turkey, as they are considered Turkish companies. Prior to the expiry of the exploration licence, the holder must obtain an operation licence: this licence may be granted for periods of five years for certain categories of minerals, and no less than ten years in the case of others, although these terms may be extended. Holders of exploration licences are also obliged to obtain operation permits from the GDMA. Once granted, companies have up to one year to commence mining operations, failing which they are subject to payment of a royalty of 10% of the annual production amount declared in the initial application, for each year of non-operation. Operation licences confer the legal right to use the licensed area, whereas operation permits are evidence of permission to operate a mine. Permits are valid for the same period as licences.[43]

40. 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, of Culture and Tourism. Law No. 5177 establishes different royalties for different categories of mineral exploitation.[44] The State's rights over produced minerals are: 4% of the ex-mine sales amount for mineral groups (i) and (v), and for any kind of materials used in construction (such as cover stone), rough construction work, dams, ponds, seaports and roads; and 2% for other groups of minerals. For mining companies that use the ore they produce in their processing activities, the royalty calculation takes into account the amount of ore processed (through a flat 50% royalty reduction). Where mining activities are within state-owned land, licence holders must pay an additional 30% royalty since they will not have to pay to lease state-owned property for mining activities.

41. In 1985, a Mining Fund was established (Article 34 of Law No. 3213) under the supervision of the MENR to provide financial credits for exploration, technical research, development, project preparation, installation, construction, production, and export activities. The Mining Fund is still in operation, but no new resources are allocated to it; the Fund is only financed under the general budget.[45] Five schemes currently provide credits at well below market rates (Table IV.4).

[43] A mining licence may be transferred to those qualified under Law No. 5177 of 2004, and the transfer must be registered at the GDMA (Onder, 2006).

[44] In general, the rate is 4% for the first and fifth groups of minerals, and 2% for the remaining groups (Onder, 2006).

[45] Law No. 5177, and Communiqué of 14 June 2002 published in the *Official Gazette* No. 24785.

Table IV.4
Credit schemes, 2007

Scheme	General features	Nominal interest rate
Mine research and development	Maximum three-year credit; no repayment on principal for the first year; amounts cannot exceed 50% of expenditure on exploration and definition of mineral reserves and other properties in the permitted area. If the exploration is done by the General Directorate of Mineral Research and Exploration the amount of the credit can cover 75% of expenditure	11%
Installations, enlargement, and development	Maximum five-year credit; no repayment on principal for the first two years; amount is proportional to self-source rate; and cannot exceed 50% in normal circumstances. If an incentive certificate is granted it cannot exceed 60%. Credit covers expenditure on expansion of facility, enlargement and renovation investment, and infrastructure in the permitted area	13%
Management (operating) credit	Maximum three-year credit; cannot exceed the working capital; no repayment on principal for the first year	15%
Exports		20%
(i) Export credit	One-year credit; 50% of total expenditure to meet the needs of production and exports (excluding the costs of transportation) of the mineral	13%
(ii) Letter of credit or 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	13%
Stock credit	Maximum 20-40% of the stock cost for minerals produced and prepared	25%
(i) Export stock credit	Maximum 40% of the stock cost for minerals produced and prepared	13%
(ii) Domestic stock credit	Maximum 20% of the stock cost for minerals produced and prepared for domestic consumption	15%

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

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

(iii) Energy

(a) Overview

42. Turkey's energy market is among the fastest growing in the world: total primary energy consumption reached 92.6 million tonnes of oil equivalent (toe) at the end of 2006, and is expected to rise to 126 million toe in 2010, and 222 million toe in 2020. According to the authorities, Turkey's energy import dependency is around 71%, with oil representing 46% of total net energy imports, followed by gas (37%), and coal (16%). Domestic production meets 29% of demand. FDI needs in the subsector are estimated at about US$4.5 billion per year until 2010.[46] Electricity demand in Turkey amounted to 174.6 GWH in 2006, and is expected by the authorities to reach between 406 and 499 GWH by 2020.

43. The main objective of Turkey's energy policy is to ensure supply security. In addition, the authorities aim to, *inter alia*, reform and liberalize the subsector to make it more productive, efficient, and transparent; exploit local energy resources in a sustainable and environment-friendly manner (including from new and renewable sources); reduce public transfers to the SOEs operating in the subsector; and take advantage of the country's geopolitical location to make it a pivotal transit area for international oil and gas trade (East-West energy corridor).[47]

44. Various SOEs continue to dominate the subsector, including Electricity Generation Company (EUAS), local distribution companies owned by Turkish Electricity Distribution Company (TEDAS), Turkish Electricity Transmission Corporation (TEIAS). Turkish Electricity Trading and Contracting Company (TETAS), Turkish Petroleum Company (TPAO), and Petroleum Pipeline Corporation

[46] WTO (2003).

[47] Turkey has given priority mainly to two pipeline projects: the Baku-Tbilisi-Ceyhan Crude Oil Pipeline (involving Azerbaijan and Georgia), which was finished in 2006 and can transport 50 million tonnes of oil annually (its first tanker was loaded on 4 June 2006); and the Baku-Tbilisi-Erzurum Natural Gas Pipeline, for regional cooperation in the supply of fuel, which will have capacity to transport 20 billion cubic meters per year. In addition, Turkey has projects under way with other countries, such as the Turkey-Bulgaria-Romania-Hungary-Austria Natural Gas Pipeline (Nabuco); and the South Caucasus Pipeline.

(BOTAS) (Table IV.5). Some of these companies are in the privatization portfolio, and others have been privatized during the last few years, such as Petrol Ofisi (POAS), Turkey's major petroleum retailer, and the Turkish Petroleum Refinery Corporation (TÜPRAŞ), a monopoly in the petroleum refinery subsector (Chapter III(4)(ii)).

Table IV.5
Selected state intervention in the energy sector, 2007

State-economic enterprise	Market share	Price regulation	Other
Oil & Gas			
Turkish Petroleum Corporation (TPAO): production, exploration, drilling, natural gas storage, pipelines, oil trade and transportation (TPIC-TPAO subsidiary)	Produces 70 % of Turkish oil; owns and operates 18 out of 36 gas fields	Price of crude oil is set in accordance with Article 3/25(a) of Petroleum Law No. 6326 and Petroleum Market Law No. 5015	Oil producers may only export up to 35% of crude oil production onshore and 45% off-shore
Petroleum Pipeline Corporation (BOTAS): natural gas import, transportation, 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	Article 11 of Law No. 4646 the types of tariff are: connection; transmission and supervision of conveyance; storage; wholesale; and retail sale to be determined by EMRA. Currently all tariffs (except the CNG sale tariffs) are approved by EMRA until sufficient competition is in place. All tariffs are in the form of price ceilings	
Coal			
Turkish Hardcoal Enterprises (TTK): hard coal	Sole producer of hard coal	Prices set by TTK	Heavily subsidized
Electricity Generating Corporation (EUAS)[a]	Produces 26% of Turkish lignite	Prices set by EUAS	
Turkish Coal Enterprises (TKI): lignite	Produces 45.8% of Turkish lignite	Prices set by TKI	
Electricity			
Electricity Generating Corporation (EUAS)	Owns 58.5 % of installed electricity capacity	Prices set by EUAS	Private sector may participate in all segments of the market, except for transmission, by obtaining licences from EMRA. Privatization of generation is also on the agenda
Turkish Electricity Transmission Corporation (TEIAS)	Owns and operates the transmission system and also acts as market operator	Methodologies are derived and tariffs are calculated 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)	In charge of trading and wholesale of less than 50% of total generation	TETAS submits tariff wholesale price 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 for obligations as stated in the EML; its role is intended to diminish over time, once the cost burden is mitigated
20 state-owned, regional distribution companies formed by the restructuring of Turkish Electricity Distribution Corporation (TEDAS), and one private regional distribution company	TEDAS owns the distribution system but distribution and retail sales are undertaken by regional distribution companies	Regional distribution companies submit distribution and retail tariff proposals and the methodologies to EMRA for approval	Privatization of distribution is also on the agenda

a Excluding private companies' production in EUAS's mining field.

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

45. Five new laws have been enacted in the subsector during the review period: (i) Petroleum Market Law (No. 5015), passed by Parliament in December 2003, aims to remove state controls in the subsector, liberalize prices (and domestic content purchase requirements) of oil and oil products, end restrictions on vertical integration, and integrate pipeline, refining, and distribution functions; (ii) Liquefied Petroleum Gas (LPG) Market Law (No. 5307), adopted on 2 March 2005, arranges the supply, distribution, transportation, storage and trade of LPG; (iii) Law on the Utilization of Renewable Energy Sources for the Purpose of Generating Electrical Energy (No. 5346), which came into force on 18 May 2005, promotes and provides for generation of electricity from renewable sources[48]; (iv) Energy Efficiency Law (No. 5627), which came into force on 2 May 2007, aims to encourage the efficient use of energy[49]; and (v) the Law on Geothermal Resources and Natural Mineral Waters (No. 5686), adopted on 13 June 2007, aims to encourage exploration, research, development, and production of geothermal and natural mineral water resources in an environment-friendly manner.

46. Licences related to exports and imports of electricity, LPG, and natural gas are regulated under Laws Nos. 4628, 5307, and 4646, respectively, and secondary legislation enacted by the EMRA. A licence is also required under Law No. 5015 in order to import petroleum, solvent, and some petroleum products. In the electricity market, licences are issued for up to 49 years, with a minimum term of 10 years, for generation, transmission, and distribution; natural gas market licences are for a minimum of 10 and a maximum of 30 years.[50] Exports of electricity to countries that fulfil the international interconnection requirement are conducted by wholesale licensees, provided it is so stated in their licence. The wholesale licence fees are announced by the EMRA Board annually. For 2007, they are: the electricity market one-time wholesale licence fee of YTL 250,000, plus an annual licence fee of YKr 0.003 per kWh sold[51]; the natural gas wholesale licence fee of YTL 50,000, plus annual licence fee of YKr 0.0005 per kWh sold; the natural gas import licence fee of YTL 75,000, plus annual licence fee of YKr 0.0005 per kWh imported; the natural gas export licence fee of YTL 10,000, and the annual licence fee per kWh exported which is currently zero.

47. High electricity losses, including theft, have continued over the last few years despite some reductions.[52] The lack of adequate investment, together with large energy wastage, is also becoming a serious problem, and may cause power shortages. 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. Twelve combined-cycle natural gas power projects, with a total capacity of almost 14,000 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 20 years and 26 years, respectively. Turkey has announced plans to construct a nuclear power generation plant with a capacity of 5,000 MW by 2015.[53]

[48] Under Law No. 5346, EMRA grants a renewable energy resource certificate (RER Certificate), which entitles certain facilities to benefit from the incentives provided by the Law. Wind, solar, geothermal, biomass, biogas, wave, current, and tidal energy resources, together with hydraulic generation plants with a reservoir area of less than 15 square kilometres, are defined as renewable energy resources. Large hydro power plants are also considered as renewable source, but are not included in the support mechanism of the Law.

[49] The other laws pertaining to the energy market are: Electricity Market Law (No. 4628), published in the *Official Gazette* of 3 March 2001; and Natural Gas Market Law (No. 4646), published in the *Official Gazette* of 2 May 2001 (see WTO, 2003).

[50] The licences may be renewed provided that the licensees meet the requirements set out in the laws and secondary legislation.

[51] YKr = 0.01 YTL.

[52] According to the authorities, electricity losses decreased by 17.8% in 2005 and by 15.1% in 2006.

[53] European Commission (2006).

(b) Policy by type of product

Oil and natural gas

48. There are two major SOEs in the oil and natural gas subsector: BOTAS and TPAO. BOTAS is to be split into three SOEs after the year 2009: the one responsible for trading, and the one for storage will be privatized; the one for transmission will not. The two local distributors (ESGAZ and BURSAGAZ), owned by BOTAS, were first corporatized and then privatized in 2004. Under Law No. 4646, and as from 2003, BOTAS has been required to commence tenders to transfer its existing natural gas purchase and sales contracts until its imports fall to 20% of total annual consumption.[54] TÜPRAŞ, privatized on 26 January 2006, remains the only petroleum refining company, with four refineries and a total annual capacity of 27.6 million tonnes. There are 49 distribution companies.

49. Oil resources are owned by the State, which grants licences for exploration and production.[55] As of July 2007, there were 39 companies in the upstream oil subsector[56], and 107 petroleum and 36 gas fields: 67 of the petroleum fields and 18 of the gas fields are owned and operated by TPAO (responsible for 70% of domestic oil production). Recently, TPAO has also been involved in the storage of natural gas.[57] TPAO's offshore oil and natural gas explorations have increased over the last few years, especially in the Black Sea, including with foreign shareholders (e.g. Petrobras and Chevron).

50. As in some other members of the International Energy Agency, a stock agency is to be set up to maintain sufficient emergency supply of oil.[58] Under Article 16 of Law No. 5015, the petroleum stock must be equivalent to 90 days of the previous year's net average imports. Distribution and refinery companies are also obliged to hold stocks equivalent to at least 20 days' supply, while big eligible consumers that consume 20,000 tonnes or more of liquid fuel each year, must keep a stock equivalent to 15 days of their consumption (considered as a part of the national petroleum stock).[59] The remainder of the national petroleum stock must be retained by refining undertakings. According to the authorities, price caps are set by EMRA for all products in the subsector and retailers are free to set their prices accordingly. In the natural gas market, all tariffs, except compressed natural gas sale tariffs, are approved by EMRA until there is sufficient competition.

51. Foreign enterprises may invest in marketing and sales activities without restriction in the oil and natural gas subsector. Companies controlled or owned by foreign States may invest in upstream activities only with the permission of the Council of Ministers.[60] Approval by the EMRA Board is required for investment in refining, transportation through pipelines, and storage.[61] Licences on all

[54] The first contract release tender was launched on 30 November 2005 and was approved by BOTAS on 30 November 2006; 4 billion cubic meters (bcm) were tendered to four different companies. One of these four companies obtained an import licence from EMRA in July 2007.

[55] To accelerate oil and gas exploration activities, a draft Petroleum Law has been submitted to Parliament.

[56] Oil reserves are located mainly in the south-east of Turkey and Thrace.

[57] Turkey's first underground natural gas facility with a capacity of 2 bcm began operations in July 2007.

[58] For this purpose, a draft National Petroleum Stock Agency Law is being prepared (State Planning Organization, 2006).

[59] An eligible consumer is a licensed consumer whose annual petroleum consumption is more than a threshold set by EMRA, and not less than 5,000 tonnes of fuel oil, heating fuel and diesel per year.

[60] Article 12 of Law No. 6326.

[61] Some of the main private companies operating in the subsector are TUPRAS, Petrol Ofisi, BP, Shell, Total, Opet, and Aygaz.

petroleum activities are issued by EMRA.[62] Currently, EMRA is processing some private refinery licence applications; however, the places of the refineries have not yet been determined.

52. EMRA conducts tendering for natural gas distribution. A separate licence is required for each market activity (e.g. wholesale, distribution, import, export, storage), and, where the activity is conducted in more than one facility, for each facility. Since licensing application began in November 2002, 155 licences have been granted for natural gas activities (to August 2007).

Coal

53. Two main SOEs, the Turkish Lignite Enterprises (TKI), and Turkish Hardcoal Enterprises (TTK), continue to dominate the coal subsector.[63] In the brown coal industry, TKI produces around 46% of all lignite in Turkey, while TTK has a *de facto* monopoly in hard coal production, processing, and distribution. These SOEs 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 operating at a steady loss, whereas TKI became profitable in 1995.

54. Total financial transfers from the Turkish Treasury to TTK amounted to YTL 571 million in 2006; 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. TTK and TKI are not in the privatization portfolio, but the Government is considering privatization in the medium to long term. So far, only the Cayirhan power plant has been privatized, through a transfer of operating rights (TOOR) procedure. Nonetheless, steps have been taken towards privatization.[64]

Electricity

55. In 2001, TEAS, a vertically integrated, state-owned undertaking, was unbundled into three companies responsible for different segments of the business: EUAS for generation, TEIAS for transmission, and TETAS for wholesale trade. Regional distribution companies, formed by the restructuring of the Turkish Electricity Distribution Company (TEDAS), are in charge of distribution and retail sales to customers. TEDAS owns distribution assets, while the operating rights for these assets were transferred to regional distribution companies.[65] TEIAS is the sole transmission system operator and is responsible for market operations. Since the mid 1990s, direct private participation has been allowed in all segments (except transmission). With the adoption of Law No. 4628, the regime for private participation shifted from a based concessions-system to bilateral contracts between parties, with a dispute settlement mechanism.

56. Contracts remaining from the previous regime are of build-operate-transfer, transfers-of-operating-rights, and build-operate-own types. They are for 15-20 years and are subject to power purchase agreements on predetermined quantities and price formula, with the Treasury's guarantee.[66] The system has led to the accumulation of significant contingent liabilities, and implicit subsidization of an already inefficient subsector. TETAS has taken over all purchasing obligations arising from these contracts; benefits from low cost generation by EUAS were used to offset the cost burden.

[62] In 2006, EMRA issued a licence to a private company through a Decree of the Council of Ministers of 10 April 2006.

[63] Turkish brown coal has a low calorific value and a high sulphur, dust, and ash content.

[64] For example, more than 65% of the surface mining preparations in TKI are done by private firms.

[65] TEDAS supplied 73.1% of Turkey's total electricity consumption in 2006, and 78.2% during January-July 2007 (TEDAS, 2005).

[66] Installed capacity under these contracts amounts to 9,200 MW.

57. Network tariffs and tariffs for "non-eligible customers", as well as TETAS's wholesale prices are regulated.[67] 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. According to the authorities, cross-subsidies in electricity are allowed until 2010. In general, industrial consumers subsidize households, and Turkey's eastern regions are subsidized by other regions. 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. Electricity sale prices have not increased since October 2002[68], despite rising import prices for oil and gas. 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. Value added Turkey's manufacturing sector increased from US$15 billion in 1980 to around US$45 billion in 2004: the sector grew at an annual average rate of 7.9% during 2001-04 (up from 4.2% over 1990-00). The capacity utilization rate in manufacturing was 80.3% on average in 2005, the highest over the past ten years.[69] As a result, the sector accounted for 25.3% of real GNP in 2006 (24.7% in 2002), 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. Some of the main problems facing the sector are: lack of qualified labour and technology; limited production capability in high value-added products; and insufficient investment in emerging subsectors.[70]

60. Over the last few years, the export structure of the Turkish manufacturing sector has changed somewhat (Table IV.6). Almost one third of Turkey's manufacturing value added is in the textiles and clothing, leather, food and beverages, and tobacco industries. Manufacturing exports account for about 80% of total merchandise exports; the EC and the Middle East are the main markets. Imports of manufactured products represent over 60% of total merchandise imports, and are concentrated in capital-intensive industries, such as machinery and transport equipment and chemicals (Chapter I(3)(i)).

61. Over the last few years, various state-owned manufacturing companies have been privatized or liquidated, including in some heavy industries (e.g. petroleum refineries, non-ferrous basic metals, chemicals, and iron and steel), while others are scheduled to be privatized soon, such as the tobacco company TEKEL (Chapter III(4)(ii)). Although FDI inflows in the manufacturing sector jumped from US$110 millions in 2002 to US$1,867 millions in 2006, the share of manufacturing in total FDI inflows went from 29% to 10.4% over the same period (Chapter I(3)). FDI inflows in the sector have

[67] 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. In 2007, the threshold for eligible electricity consumers was reduced to 3 GWh.

[68] TEDAS (2005).

[69] Ministry of Industry and Commerce (2006).

[70] State Planning Organization (2006).

been mostly allocated to the chemical, beverages and tobacco, electrical machinery, automotive, and textile industries.

Table IV.6
Structure of the manufacturing sector, 2002 and 2005
(% share)

Technology intensity[a]	Production 2002	Production 2005[b]	Exports 2002	Exports 2005
High	5.1	6.3	6.2	6.0
Mid-high	18.2	25.3	24.3	28.5
Mid-low	26.7	27.0	22.8	26.9
Low	50.0	41.4	46.8	38.7
Total	100.0	100.0	100.0	100.0

a OECD science, technology and industry scoreboard classification is taken as reference.
b Forecasts at 2002 prices.

Source: State Planning Organization (2006), *Ninth Development Plan 2007-13,* Ankara.

(ii) Policy developments

62. Turkey's main long-term objective in the manufacturing sector is to boost its competitiveness and productivity by, *inter alia*, reducing direct state intervention and privatizing SEEs; investing in technological development and innovation[71]; and supporting small and medium-sized enterprises (SMEs).[72] The Ministry of Industry and Trade (MIT), through the Public Agency for the Development of SMEs (KOSGEB), provides various services and support programmes (Chapter III(3)(iv)). Investment incentives are also granted under the Investment Encouragement Programme (IEP) (Chapter III(4)(i)).

63. The manufacturing sector is the main beneficiary of state aid to domestic producers. In 2006, the sector was granted 52% of total investment incentive certificates (against 65% in 2002): the majority were for textiles and clothing, followed by food and beverages.[73] The sector also receives a large part of duty concessions for exports as well as export credits and guarantees (Chapter III(3)(iv)).

64. MFN customs tariffs on manufactured goods (Major Division 3 of ISIC Revision 2) average 10.9%; the most tariff protected industry is food manufacturing (Chart IV.1). Specific tariffs are levied on alcoholic beverages; mixed duties apply to, *inter alia*, carpets, glass and glassware products, and watches; and variable 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 certain industries for semi-finished goods, such as in chemical and plastic industries where there is negative escalation (Chapter III(2)(iii)(b)).

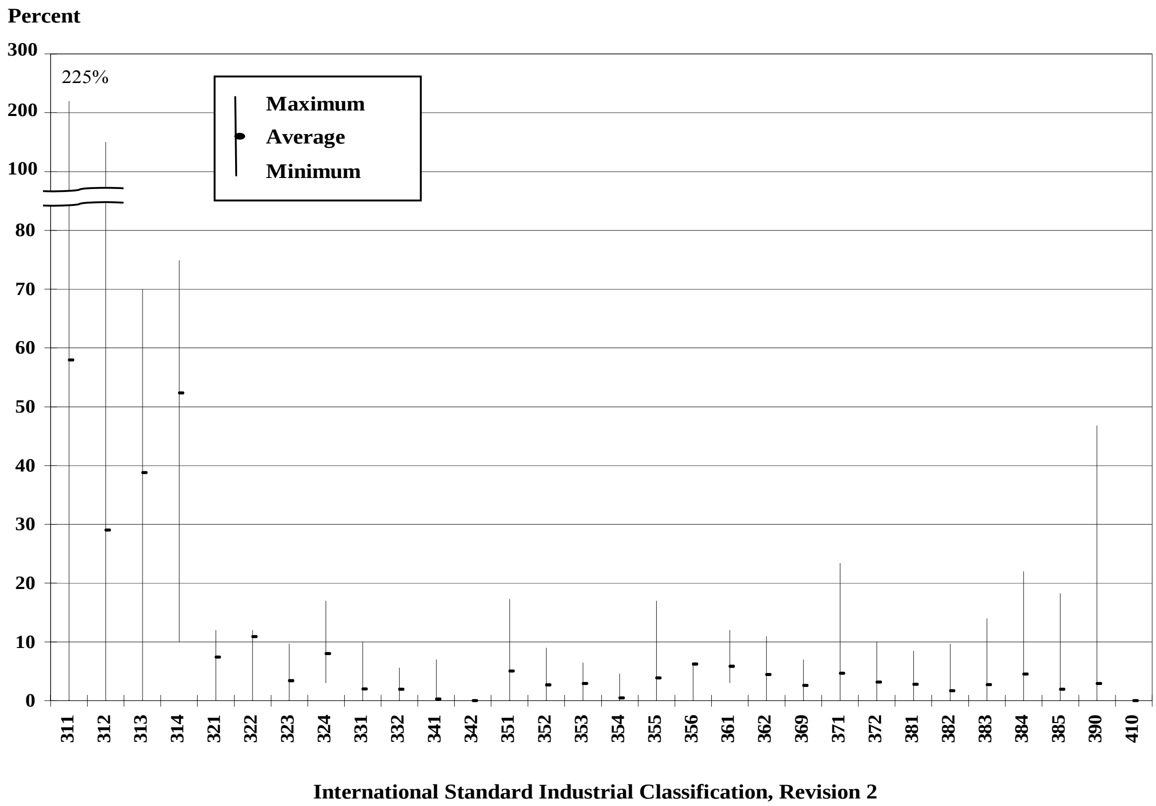
65. MFN tariff quotas for television tubes were opened in January 2007, but were eliminated on 30 June 2007 (Chapter III(2)(iv)). Import licensing applies to some manufactured products, such as motor vehicles, transmission apparatus, and chemicals. Under the CUD, Turkey has introduced quotas on certain textiles and clothing products (section (iii)(a) below). Turkey's 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)).

[71] Technological development and innovation are among the most important components of the Turkish manufacturing policy. A strategic action plan has been set up to promote outward-oriented, technology-intensive, and high-value-added production (Ministry of Industry and Trade, 2006).

[72] SEEs account for around 5% of Turkey's GDP, and about 15% of the value added in the manufacturing sector (European Commission, 2006).

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

Chart IV.1
Tariff protection in the industrial sector, 2007



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

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

(iii) Selected industries

(a) Textiles and apparel

66. Although annual average growth in the textiles and apparel subsector during 2000-05 (1%) was significantly lower than the 5.4% registered by the manufacturing sector over the same period, the subsector still constitutes Turkey's largest industry. It accounts for 4.2% of GDP, 13.3% of manufacturing output, and employs about 22% of workers in manufacturing. A key factor behind the industry's successful performance is Turkey's ample supply of home-grown cotton: Turkey is the world's sixth largest producer of raw cotton. Other factors are the top quality of the raw cotton crops, low wage costs, 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 7.8%, with rates ranging up to 17%.

67. Textiles and clothing products contributed 22.7% to Turkey's total merchandise exports in 2006 (against 34.4% in 2002), and the composition of exports has continued to shift towards higher-value-added finished products and ready-made clothing. In 2004, Turkey ranked 4th among the largest apparel exporters in the world with a share of 4.3%, and 9th among textile exporters with a world share of 3.3%.[74] The EC has traditionally been Turkey's largest foreign market for both textiles and apparel, followed by the United States.[75] 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. 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.[76]

68. The textiles, clothing, and leather industries do not receive any specific incentives. However, these industries are the second most important beneficiaries of the incentives provided under IEP, such as exemption from customs duties and fund levies on imported machinery and equipment; VAT exemption on imported and locally purchased machinery and equipment; and interest rate support in favour of investment projects (Chapter III(2)(iii)(c)).[77] In 2006, investment in the textiles and clothing industries accounted for 11.6% of the investment incentive certificates, down from 26.1% in 2002. Credit and guarantee programmes by Turk Eximbank are also among the more important incentives provided to textile and apparel investors (Chapter III(4)(i)).

69. The performance of the textiles and clothing industries has suffered from volatile domestic prices of raw cotton in the past few years.[78] To counter this problem, the private sector is working with the Government to establish a futures market in an attempt to stabilize these prices. Another

[74] Ministry of Industry and Commerce (2006).

[75] In 2005, Turkey was the EC's second largest supplier of textile and apparel products, with shares of 13.1% and 15.4%, respectively. Turkey was also the 11th and 19th supplier of textiles and apparel to the United States the same year.

[76] GAP covers the provinces of Adiyaman, Batman, Diyarbakir, Gaziantep, Kilis, Mardin, Siirt, Sanliurfa, and Sirnak. 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 use; 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 conditions to attract qualified manpower to the region.

[77] The compensation on the interest rate is 5 percentage points for YTL credits, and 2 percentage points for foreign currency credits.

[78] Turkey is a net importer of raw cotton, with annual imports of about 50,000 tonnes and local production of 90,000 tonnes. During the last few years, world raw cotton prices have been very volatile, which has affected domestic cotton prices, and consequently the production cost of the textiles and clothing industry.

problem for these industries, and many others in Turkey, is the frequent power cuts, as well as high prices for electricity by international comparison (section 3(iii)(b) above).

70. Under the WTO Agreement on Textiles and Clothing (ATC), Turkey notified that, as from 1 January 2005, it would have integrated all products not previously integrated into GATT 1994.[79] Turkey had retained its right to use the transitional safeguard mechanism under the provisions of the ATC (Article 6), but did not make use of it.[80] Turkey has been involved in the WTO dispute settlement mechanism regarding its restrictions on imports of textile and clothing products from Hong, Kong, China; India; and Thailand (Chapter II(3)(i)).

71. Turkey introduced import quotas on certain textiles and clothing products under the CUD. It applies quotas under the double checking system on 34 categories of product from Belarus with which an agreement has been reached; and under the single checking system on goods from countries with which an agreement has not been reached, i.e. the Democratic People's Republic of Korea (48 categories of products), Montenegro (12 categories), and Uzbekistan (2 categories). Moreover, Turkey has quotas on 44 categories of textiles and apparel products from China , for example, shirts, jerseys, T-shirts, and gloves.[81] 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 largest parts of the quotas are distributed among firms that exported the same category in the previous year; the remainder is allocated to new exporters of the category of goods.[82]

(b) Iron and steel

72. The iron and steel industry has been the backbone of industrialization in Turkey, which is the world's 11th largest crude steel producer (about 2% of world production in 2006).[83] The industry produced 23.3 million tonnes of crude steel in 2006 (up from 16.5 million tonnes in 2002); its estimated capacity is about 27.7 million tonnes (22 million tonnes in 2002). Crude steel production is divided into long steel (84.5% of total production in 2006), flat steel (13.5%), and special steel products (2%). The industry is now operated entirely by the private sector.[84] Tariff rates on iron and steel products average 4.6%, with maximum rates of 23.4%.

73. Exports of iron and steel accounted for 8.5% of Turkey's total merchandise exports in 2006; the EC and Middle East are the main markets. Turkey's finished steel consumption rose from 8.7 million tonnes in 2001 to 20.8 million tonnes in 2006, mainly due to a construction boom during the period. Turkey imports flat steel products (about US$4 billion in 2006), and special steel (US$1.3 billion), and is one of the biggest scrap iron importers (US$3.8 billion in 2006). Turkey is

[79] WTO document G/TMB/N/480 of 5 July 2004. The subsector was integrated into GATT 1994 in four stages, on 1 January 1995, 1 January 1998, 1 January 2002, and 1 January 2005. In the WTO Council for Trade in Goods, Turkey has requested a work programme to examine the effects of the quota phase-out on production, investment, and trade in the textiles and clothing subsector, arguing that the programme should provide policy options, technical advice, and practical assistance to small-scale producers in need of readjustment strategies.

[80] WTO document G/TMB/N/18 of 6 March 1995.

[81] Communiqué No. 2006/6, published in the *Official Gazette* No. 26386 of 24 December 2006. These quotas are applied under paragraph 242 of the Report of the Working Party on the Accession of China to the WTO, which sets a safeguard mechanism for imports of textiles and apparel products originating in China. WTO document WT/ACC/CHN/49, 1 October 2001.

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

[83] Ministry of Industry and Commerce (2006).

[84] In 2005, Oyak acquired 49.29% of Erdemir's shares through its subsidiary Ataer Holding, for US$2.96 billion. In 2002, Erdemir had bought Isdemir, one of Turkey's long-iron producers, on the condition that Isdemir would start producing flat products within five years.

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.

74. With the expiry of the European Coal and Steel Communities (ECSC) agreement[85], the five-year period to grant subsidies for the restructuring or conversion of the Turkish steel subsector ended in July 2001.[86] However, Turkey asked the EC for a five year extension to allow its 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). On 31 August 2006, Turkey sent its National Restructuring Programme for the steel industry to the EC; the Programme is being analysed by the EC Commission. Nonetheless, some Turkish companies are already modernizing their facilities according to the framework defined in the Programme.[87]

75. The iron and steel industries do not enjoy any specific incentives. Also, under the ECSC agreement, investment incentives are not available for the production of iron and steel products. However, the subsector accounts for a small share of investment incentives issued under the IEP (Chapter III(4)(i)). Iron and steel manufactures accounted for 9% of Türk Eximbank's credits in 2006 (against 10% in 2002).

(c) Automotive

76. The motor vehicle industry in Turkey consists of 15 assemblers and manufactures (some are foreign owned or joint ventures), generally operating under licences, and employing more than 40,000 people directly. In addition, there are about 700 automotive suppliers, employing around 150,000 workers.[88] In the commercial vehicles industry, 12 companies operate under foreign licence, with a production capacity of over 400,000 units (2006); the passenger car industry is much larger and expanding, with a current production capacity of 796,000 units. Renault (in a joint-venture with Oyak), Toyota, and Fiat (in a joint-venture with Koc Com) accounted for about 89% of car output in 2006 (down from 93% in 2002), and dominated the market for imported licensed parts.[89] Relatively low labour costs and duty-free access to the EC 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, albeit increasing.

77. Automotive (motor vehicles) production in Turkey increased from 347,000 units in 2002 to around 988,000 in 2006. Total automotive exports have also been rising steadily; they reached US$11.7 billion in 2005 (from US$4.3 billion in 2002), to become Turkey's second largest manufacturing export. The share of components in total automotive exports was 31.6% in 2005 (47.8% in 2002). Over 70% of automotive exports go to the EC market, mainly Germany, Italy, and the United Kingdom.

78. Tariffs on motor vehicles average 6.4%, with a maximum rate of 22%. Other border measures include an import licensing system (Chapter III(2)(iv)). As at the time of the previous Review of Turkey, most motor vehicles (six items at the four-digit level) may only be imported

[85] The Treaty establishing the ECSC entered into force on 23 July 1952 and expired on 23 July 2002.

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

[87] For example, Erdemir has already started the conversion programme from long to flat products at its Isdemir plant (Ministry of Industry and Commerce, 2006).

[88] The Association of Automotive Parts and Components Manufacturers (TAYSAD), established in 1978, is the representative of such industries; it has 189 members, mostly large size companies.

[89] Ministry of Industry and Commerce (2006).

against a pro forma invoice certified by the MIT.[90] According to the authorities, pro forma invoice controls aim to assure the conformity of imported vehicles with EC Directives.

79. 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%. The motor vehicle purchasing tax (MVPT) was abolished on 1 August 2002, together with the environmental fund tax (25% of the MVPT).[91]

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

(5) SERVICES

(i) Main features

81. Services is a key sector of Turkey's economy, in terms of contribution to both GNP and foreign exchange earning (Chapter I(3)(i)). Since its previous Review, Turkey has taken measures to tackle some of the structural problems in some services subsectors: the monopoly of Turk Telekom (TT) over fixed line, domestic long-distance and international telephony ended in 2004, and the scope of the liberalization and privatization process has been extended in some subsectors (Chapter III(4)(ii)). 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, for example, Turkish Postal Administration, and Turkish State Railways.

82. Under the General Agreement on Trade in Services (GATS), Turkey scheduled commitments in several service categories, and accepted the GATS Fourth and Fifth Protocols on basic telecommunications and financial services, respectively (Table AIV.2).[92] 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.3). Turkey has also tabled its initial and revised conditional offers in the ongoing services negotiations.[93]

83. Services are not covered by the customs union agreement between Turkey and the EC. Nonetheless, under the pre-accession framework for Turkey, negotiations have started on liberalization of services and opening up public procurement markets, in line with the Turkey-EC Association Council Decision of 11 April 2000.

(ii) Financial services

(a) Banking

84. The banking subsector employs 150,793 workers, and has total assets of US$353.6 billion (December 2006), up from US$303 billion at end 2005. At end 2006, there were 50 banks operating in Turkey: 33 commercial, 13 development and investment banks, and four participation banks. The number has decreased over the last few years mainly due to mergers, and revoked banking licences. In terms of ownership, 21 were private, 21 foreign, and the remainder either state-owned or under the

[90] See WTO (1998), Table IV.14.
[91] See WTO (2003).
[92] WTO documents WT/LET/199 of 19 November 1997, and WT/LET/288 of 18 February 1999.
[93] WTO document TN/S/O/TUR/Rev.1 of 29 September 2005.

Savings Deposit Insurance Fund (SDIF). Halk Bank and Ziraat are the two largest state banks; privatization of Halk Bank has started[94], while the strategy for Ziraat Bank is to be prepared drawing on the experience with Halk Bank (Chapter III(4)(ii)).

85. 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.

86. 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.[95] The BSRP 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). The BRSA is the sole authority regulating banking and supervising all banks (as well as the SDIF) in Turkey. To build on progress in bank supervision, the BRSA has recently introduced secondary legislation on systems audit principles; made some organizational changes, including the merger of onsite and offsite supervision; and published its Strategic Plan 2006-09 setting out broad strategic goals. Nonetheless, further improvements seem necessary. For example, the exclusion of non-financial group companies from the banks' consolidated accounts undermines the effective supervision of banks that form part of mixed-holding groups.[96]

87. 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. The administration and the representation of SDIF were first enforced by the CBRT and then by the BRSA. By end 2007, no banks will remain under the administration of the SDIF.[97] The BSRP also aims to promote a healthier financial situation among private banks through minimum capital requirements.

88. A new Banking Law (No. 5411) entered into force on 1 November 2005, with the aim of harmonizing Turkish legislation with EC directives and international standards. It reduced the maximum credit limit for parent undertakings to EC standards; introduced risk-based supervision; put an end to the sworn bank auditors' monopoly in onsite supervision; and established a financial services commission to improve cooperation among supervisory authorities.[98]

89. Under the Law, 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 YTL 30 million.[99] Foreign banks can operate in Turkey 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 BRSA

[94] Treasury shares at Halk Bank were transferred to the privatization portfolio, and an initial public offering has been held for 24.98% of the shares.

[95] According to some estimates, the total cost to the Government of restructuring the banking system since the 2000-01 crisis was about US$47 billion (32% of GDP), of which US$6 billion was the cost of compensating depositors after the 2003 failure of Imar Bank, and an estimated US$2 billion for the recapitalization of Pamukbank (OECD, 2006).

[96] European Commission (2006).

[97] IMF (2006).

[98] European Commission (2006).

[99] Principles and procedures for the establishment of banks in Turkey are set out in the Banks Act No. 4389 and relevant regulations issued by the BRSA.

approval. Under Law No. 5411, establishment of a bank to be engaged exclusively in offshore banking, is allowed by Board decision.[100] 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, and internal control) and risk management systems are, to a great extent, in compliance with the Basel principles.

(b) Securities

90. Inaugurated in 1986, the Istanbul Stock Exchange (ISE) is Turkey's sole securities market, it was established to provide trading in equities, bonds and bills, revenue-sharing certificates, private-sector bonds, real-estate certificates, and foreign securities. The ISE, a public entity, consists of 104 brokerage houses and 40 banks.[101] Margin trading, short-selling, securities lending and borrowing have been regulated by the Capital Market Board (CMB). At the end of July 2007, the ISE comprised 322 companies (286 at end August of 2003), 100 of which are included in the ISE National-100 Index.[102] Total trading in the ISE equities market rose to US$229.6 billion in 2006, up from US$70.8 billion in 2002. The bonds and bills market provides a trading environment for government bonds, treasury bills, bonds issued by the Privatization Administration, private sector bonds, and repo transactions. The "International Bonds Market", within the "ISE Foreign Securities Market", aims to provide a transparent and secure trading environment for listed Turkish Sovereign Eurobonds; it has been active since 16 April 2007.

91. The legal framework for the capital markets is laid out in the Capital Market Law of 1981 (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 securities). In addition, it has authority to regulate the issuing process of private-sector capital-market instruments. The Turkish stock and bond markets are open to foreign investors without restriction on the repatriation of capital and profits.

92. 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 Central Registry Agency (CRA), established as a private entity in 2001 under the Capital Market Law, is the only central depository for all capital market instruments in Turkey. CRA took over the custody function for stocks, on 28 November 2005, from Takasbank.

93. In February 2005, the Turkish Derivatives Exchange (Turkdex) started operations in İzmir. Turkdex is the sole exchange in Turkey for trading in derivatives instruments. The first private sector corporate bond, since 1999, was issued in July 2006.

[100] This also applies to the opening of a branch in Turkey by offshore banks established abroad, and their fields of activity and financial reporting and audit procedures, as well as details regarding the temporary suspension or revocation of their activities.

[101] Banks cannot operate in the equities market.

[102] In addition, second national markets (with a lower listing requirement), the new economy market (for new technology companies), and the watch-list companies market are available to 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).

(c) Insurance

94. The Turkish insurance market consists of re-insurance companies, insurance companies, and insurance intermediaries (such as brokers and agencies). At end 2006, there were 46 insurance companies (55 in 2002); 35 operate in non-life, ten in life and pension, and one in pension only There is also one re-insurance company, Milli Reasurans T.A.S. (commonly referred to as Milli-Re), which is a private company owned by Turkiye Is Bank A.S.[103] The State does not have majority shares in any insurance or reinsurance company. At the end of 2006, 29 insurance companies had foreign capital, either directly or indirectly; foreign companies accounted for 32.3% of total premiums. Total assets of insurance and re-insurance companies were US$12.898 million.

95. 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 to protect the insured. The Insurance Supervisory Board is entrusted with supervising, examining, and investigating the subsector. The Insurance Law No. 5684 governs the supervision of insurance and reinsurance companies. All insurance and reinsurance companies, whether foreign or Turkish, are subject to the same legislation.

96. 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 they have not been prohibited in their country of operation. Following establishment, insurance and reinsurance companies must obtain a licence from the Undersecretariat; a separate licence is issued for each branch. Subject to specified exceptions, cross-border supply of non-life insurance services is prohibited.[104]

97. Insurance companies may engage only in insurance business and must perform either life or non-life insurance business, but not both.[105] Export credit insurance is provided by insurance companies and the Turk Eximbank; some private insurance companies cover both short-term export credit and domestic credit risk. Tontines (under which the last survivor of a group of persons acquires the capital invested) are prohibited in Turkey. The minimum paid-up capital requirement for insurance and re-insurance companies is YTL 5 million. 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. There are no restrictions on portfolio composition and risk exposure of insurance companies.

98. Compulsory earthquake insurance was launched through Decree Law No. 587 on 27 December 1999 and the creation of the Turkish Catastrophe Insurance Pool (TCIP). The TCIP is

[103] Milli-Re was set up in 1929 to ensure that local companies could obtain reinsurance on reasonable terms, and to retain reinsurance premiums in the country. The requirement for mandatory cession of domestic insurance business to Milli-Re was terminated on 1 January 2002, although Milli-Re retained a right of refusal on any business to be offered to foreign insurers (about US$40 million annually) until the end of 2006.

[104] 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 for goods imports and exports; and individual accident, sickness, and motor vehicle insurance during any travel abroad.

[105] Companies 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.

the only line of insurance business carried out by the public sector and its main aim is to mitigate the risk being borne by public funds.[106] 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. The TCIP has the capacity to support insured losses of up to €1 billion: if aggregate losses exceed that level, the excess could fall on the Government and policyholders.

99. Premiums for compulsory insurance (e.g. third-party motor liability insurance, and earthquake insurance), are set by the Ministry of State. However, for third-party motor insurance, the Undersecretariat sets a band in which companies are free to establish their own premiums (since August 2007). Moreover, for some compulsory insurances, there are minimum premiums, also determined by the Ministry of State. Premiums for the other branches of insurance are set by the insurance companies.

(iii) Telecommunications and postal services

100. Since the last TPR of Turkey, its telecommunications network has continued to grow, notably the mobile market where the number of cellular mobile subscribers has more than doubled (Table IV.7). Similarly, the number of internet users increased from 4.3 million in 2002 to 12.3 million in 2006. All Turkey's villages are connected to the telephone network; at end 2006, there were 18.8 million fixed lines in service, i.e. a teledensity of 25.39 (down from 26.88 in 2002). According to the authorities, the number of fixed telephone subscribers has reached saturation point.[107] Penetration of telephone lines remains below the EC average for both fixed and mobile telephony.[108]

Table IV.7
Selected telecommunication indicators, 2002-06

	2002	2003	2004	2005	2006
Main telephone lines ('000)	18,890	18,917	19,125	18,978	18,832
Main lines per 100 inhabitants	26.88	26.55	26.48	25.93	25.39
Cellular mobile subscribers ('000)	23,323	27,888	34,708	43,609	52,663
Cellular subscribers per 100 inhabitants	33.19	39.14	48.06	59.58	71.00
Internet users ('000)	4,300	6,000	10,220	11,204	12,283
Internet users per 100 inhabitants	6.12	8.42	14.15	15.31	16.56
Internet hosts	154,585	359,188	474,129	474,129	..
Internet hosts per 10,000 inhabitants	22.00	50.41	65.65	65.65	..
ADSL subscribers ('000)	2.9	56.6	452.4	1,539.5	..
Personal computers ('000)	3,000	3,333	3,703	3,703	..
Personal computers per 100 inhabitants	4.27	4.68	5.13	5.13	..

.. Not available.

Source: ITU (2007), *Telecommunication Indicators*, Geneva, and information provided by the Turkish authorities.

101. The creation of the Telecommunication Authority (TA) in August 2000 put an end to the fragmented regulatory structure.[109] Through Laws Nos. 4502 and 4673, the TA has the power, *inter alia*, to grant licences; to pursue dispute settlement procedures between operators; and to approve,

[106] It was launched after the 1999 earthquake in Marmara, after which it was found that only a small fraction of the economic loss was insured, and hence the repair burden fell mainly on the Government.
[107] Undersecretariat of State Planning Organization (2006).
[108] European Commission (2006).
[109] WTO (2003).

and in specific cases, determine the prices of relevant telecommunications services. Any company planning to provide telecommunications services or to build telecommunications infrastructure in Turkey has to obtain a licence or authorization from the TA (Table IV.8).[110] Minimum licensing fees for telecommunication services (including GMPCS, internet service provision, premium rate services, satellite platform services, satellite telecommunication services) are set by the TA, subject to approval by the Council of Ministers.[111]

Table IV.8
Licences granted, 2004-06

	2004	2005	2006
Authorization agreements	1	2	2
Concession agreements	3	4	4
Satellite platform operators	3	1	2
Satellite telecommunications services operators	23	24	20
Operators providing mobile telephony services by satellite	5	5	4
Operators performing data transmission over terrestrial lines	14	20	20
Internet service providers	91	74	72
Operators providing long distance telephony services	43	40	35
Operators providing common usage radio services	9	48	48
Infrastructure service operators	0	0	7
Cable platform service operators	0	0	5
Total	**192**	**218**	**219**

Source: Telecommunications Authority (undated), *2005 Annual Activity Report*, Ankara, and information provided by the Turkish authorities.

102. Since its last TPR, has continued the liberalization process of its telecommunications subsector. The monopoly of TT over fixed line[112], domestic long-distance, and international telephony ended on 31 December 2003.[113] In November 2005, the government sold 55% of its TT's shares to Ojer Telekomünikasyon AS, a consortium consisting of Saudi Oger and Telecom Italia (Chapter III(4)(ii)).[114] As of 1 July 2005, when new regulations on local network sharing came into effect, TT ceased to be the only supplier of ADSL services.

103. Law No. 5369 on universal services in electronic communication, which became effective in 2005, defines the scope of universal services for: (i) fixed telephone services; (ii) public payphones; (iii) directory enquiry services, printed or electronics; (iv) emergency call services; (v) basic internet services; (vi) transportation services to regions where they can only be made by navigation, and communication services related to emergency and safety in the sea; (vii) service targeting promotion of information technologies, including computer training; and (viii) digital broadcasting services (DVB-T, DVB-S, DVB-C), using different broadcast environments, over terrestrial digital transmitters covering all residential areas in Turkey. Universal service providers are designated

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

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

[112] TT operates the world's 13th largest installed fixed-line infrastructure. The average daily malfunctions reported in 2005 was 1.15 per thousand (0.5 per thousand in urban areas and 1.15 per thousand in rural areas) (Türk Telekom, 2006).

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

[114] Council of Ministers Resolution No. 2005/9146 (Türk Telekom, 2006).

among the operators via a tendering method.[115] Turksat and TT are the current universal service providers. The Ministry of Transport is responsible for the application of this law.

104. In accordance with Directives Nos. 97/33/EC and 2002/21/EC, an "Ordinance regarding the Designation of Operators with significant Market Power" was issued on 7 January 2007, to ensure the application of the Tariff Ordinance, and of the Access and Interconnection Ordinance, published in the *Official Gazette* of 14 June 2007.[116] 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 costs. If parties fail to reach an agreement, even with the TA's mediation, the TA sets terms, conditions, and prices for 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 2002, the TA introduced price-cap mechanisms in the determination of charges for services provided by TT.[117] The TA is required to ensure that cross-subsidization between different services are avoided. It signed a Protocol with the Competition Authority on 16 September 2002 as a further step towards an improved regulatory framework.[118] The TA is also enhancing public participation in the regulatory process through the establishment of a Telecommunication Policy Council comprising operators, consumers, and experts.

105. A revenue sharing arrangement between two GSM services operators, Turkcell and Telsim[119], and TT, was converted into a 25-year licence in April 1998; both companies paid US$500 million. In 2001, two new GSM operators were licensed: Aria, partly owned by Telecom Italia Mobile, and TT's Aycell. In 2004, these two operators merged into Avea.[120] In addition to GSM services, the TA has been authorizing capital firms to provide some telecommunication services, such as internet service, satellite platform services, and satellite telecommunication services.

106. Turkcell, the leader of the Turkish GSM market, lowered its intra-network call rates by a third after the creation of Aria, and all its call rates by half since Avea entered the market. Currently, customers in Turkey pay relatively low tariffs, by international standards.[121]

107. According to the Board of the TA, Turkcell, Telsim, and Avea have significant market power in the mobile call termination market; Turkcell also has it in the mobile access and call origination markets.[122] As a result, an Ordinance on Quality of Service in Telecommunications was published in

[115] Any operator may be designated to provide universal services, within the electronic communication sector, at the regional or national levels.

[116] 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.

[117] Decision No. 246 of 11 May 2005.

[118] The Protocol is currently not in force. Nevertheless, under Article 7 of Law No. 2813, the Competition Authority has to seek the views of the TA in its investigations concerning the subsector, although these views are not binding.

[119] In 2005,Telsim was sold to Vodafone for US$4.5 billion.

[120] AVEA is a GSM service provider currently owned by TT (81%), and Türkiye Iş Bankasi (19%). At end 2005, AVEA controlled about 14% of the mobile market, with 6.2 million subscribers (AVEA online information. Viewed at: www.avea.com.tr).

[121] In May 2007, AVEA's prices were: up to YTL 0.35 (about €0.2) per minute for national calls, and between YTL 0.32 and YTL 2.1 (about €0.19 and €1.1) per minute for international calls. National SMS messages cost up to YTL 0.06 (about €0.03), while the price of international SMS messages were YTL 21 (about €0.12) (AVEA online information. Viewed at: www.avea.com.tr).

[122] The following criteria are used by the Board of the TA to establish if an operator has significant market power: market share; power to influence market conditions; relationship between sales and market share;

the *Official Gazette* in March 2005, with the aim of improving various services (e.g. fault repair time, response time for operator services, and bill complaints).

108. In 2007, the TA prepared a Project for Eurasian Cooperation in the field of Telecommunications Regulations in order to, *inter alia*, establish permanent and effective cooperation on telecommunications regulations between countries in the region, and harmonize regulatory activities. With this aim, a coordination study group was created in March 2005.[123] 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 on telecommunications. The ITU Plenipotentiary Conference took place in Antalya in November 2006.

109. The Turkish Postal Administration, under the Ministry of Transport (MT), is the regulatory and operational body for postal services. According to the postal law[124], its monopoly covers open and closed letters, postcards, 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. In 2004, under the PTT-Bank logo, Turkish Post started offering postal financial services on behalf of banks (e.g. collection of bills and credit card payments), with the aim of making such services available in remote areas.[125]

(iv) Transport

110. In 2005, under the coordination of the MT, Turkey launched its Transport Master Plan Strategy with the aim of increasing coordination among the various institutions involved in the subsector, and formulating policies in a "balanced and holistic way".[126] One of the key targets of the Plan is to increase, by 2020, the share of railways in total transport to 20% of freight (up from 5% now), and 10% of passengers (up from 2%).[127] Under its Ninth Development Plan 2007-13, Turkey also aims, *inter alia*, to create an efficient transport subsector, giving priority to environmental aspects, and to increase traffic safety in all modes of transport, particular highways (Table IV.9).[128]

111. Turkey is part of the Euro-Mediterranean Regional Transport Project (EuroMed Transport Project), implemented since 2003, with the aim of contributing to both the development of the Euro-Mediterranean Free Trade Area, and economic integration among the countries in the region. It provides assistance in improving the functioning and the efficiency of the Mediterranean transport system; promotes the harmonization of operational norms and regulations; encourages the coordination of transport policies; and promotes the modernization of the regional transport

power to control access devices to last consumer; power to access financial resources; and experience on its products and services in the market (Telecommunications Authority of Turkey, 2006).

[123] Telecommunications Authority online information. Viewed at: http://www.tk.gov.tr/eng/pdf/eng-2005.pdf.

[124] Law No. 5584.

[125] This is under the condition of not offering traditional banking services, such as granting loans and opening saving accounts.

[126] In the absence of a master plan, problems regarding all transport activities were being tackled on an *ad hoc*, short-term basis, and without the necessary cooperation and coordination among the different transport authorities that participate in the subsector (WTO, 2003).

[127] To alleviate bottlenecks for national and international railway transport through Turkey, major high-speed railways lines and a new Bosphorus underwater railway tunnel are being constructed (UNECE, 2006).

[128] State Planning Organization (2006).

infrastructure taking into consideration the trans-European networks.[129] In addition, a TINA (Transport Infrastructure Needs Assessment) study has been completed to develop a multimodal transport network within Turkey, and to extend the EC's TEN-T (trans-European transport network) into Turkey.[130]

Table IV.9
Freight transport, 2006 and 2013
(Million tonnes-km)

	2006	2013	2007-13 Percentage change
Domestic			
Highway[a]	169,500	248,000	5.6
Railway	8,358	25,400	17.0
Maritime	5,400	8,400	6.5
Airline[b]	468	659	5.0
Pipeline			
Crude oil (million tonnes)	6.1	9.0	47.5
Natural gas (billion m^3)[c]	30.8	37.4	21.4
International			
Railway	1,318	8,248	31.0
Maritime	749,000	1,740,000	12.8
Airline[c]	2,613	4,777	9.0
Pipeline			
Crude oil (transit) (million tonnes)	9.6[d]	120.0	1,150
Natural gas (transit) (billion m^3)	0	14[e]	n.a

n.a Not applicable.

a Transport on the 117 km of motorways and connection roads that were transferred to the Istanbul Metropolitan Municipality is excluded from the beginning of 2005.
b Turkish Airlines' value.
c Not included in total.
d Includes amount transported via Iraq-Turkey crude oil pipeline, and BTC crude oil pipeline.
e Includes amount of gas transported to Europe by Turkey-Greece-Italy and Nabucco natural gas pipeline.

Source: State Planning Organization (2006), *Ninth Development Plan 2007-13,* Ankara, and information provided by the Turkish authorities.

(a) Maritime transport

112. Turkey's maritime fleet ranking went from 18th in the world in 2000 to 24th in 2005, largely due to problems of financing and flag avoidance.[131] In 2006, Turkey had 61 shipyards (37 in 2002), employing 28,580 persons, and with a capacity of 1.8 million deadweight tonnage (dwt) (550,000 dwt in 2002); the authorities expect total capacity to reach 6 million dwt in 2010.[132] 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. Total loading and unloading in the maritime subsector rose from about 206 million tonnes in 2004 to over 232 million tonnes in 2006 (Table IV.10). In 2006, container handling reached 3.9 million TEU (20-foot equivalent unit), against 2.9 million in 2004. Port facilities are increasingly overcrowded and inadequate to deal with the rise in ship traffic, partly because of delays in some projects (e.g. the North Marmara Port and the Izmir

[129] The other members of the EuroMed transport project are: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, the Palestinian Authority, Syria, and Tunisia (EC, 2004).

[130] The project consists of defining and assessing a multimodal transport network in Turkey, comprising roads, railway lines, seaports, and airports. The final report is yet to be approved by the sponsors, i.e. Ministry of Transport, State Planning Organization, and the European Commission. The ultimate decision-maker of the study, on behalf of Turkey, is the High Planning Council.

[131] State Planning Organization (2006).

[132] Ministry of Transport online information. Viewed at: http://www.ubak.gov.tr/ubak/en/index.php [21 May 2007].

Port dredging and extension projects, as well as in the construction of the Derince Container Port).[133] Some port services in Turkey are also relatively expensive.[134]

113. 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).

Table IV.10
Maritime transport , 2004-06

	2004	2005	2006
Loading (tonnes)	**70,041,134**	**68,639,896**	**77,908,825**
Exports	55,118,561	54,494,224	63,311,978
Domestic	14,922,573	14,145,672	14,596,847
Unloading (tonnes)	**136,002,156**	**140,091,972**	**154,539,643**
Imports	121,043,378	126,169,107	139,406,306
Domestic	14,958,778	13,922,865	15,133,337
Transit	**5,491,810**	**5,261,659**	**11,144,059**
Total	**206,043,290**	**208,731,868**	**232,448,846**

Source: Information provided by the Turkish authorities.

114. In the last few years, several public ports, operated by the General Directorate of the Turkish Maritime Organization (TDI), have been concessioned[135], and the tendering processes, for the concession of the ports of Bandirma, Derince, İzmir, Samsun, and İskenderun, have been launched (Chapter III(4)(ii)). However, the six largest ports are still operated by a state-owned enterprise, the Turkish State Railways (TCDD).[136] Some of the main problems facing TCDD are insufficiency of port equipment and infrastructure; lack of computerization, causing delays in tracing cargo, and sometimes their loss; and under-investment with cross-subsidization of railways from port proceeds.[137]

115. Under Cabotage Law No. 815, merchant maritime transport and passenger services, pilotage, and all other port services can be provided only by Turkish flag ships. 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

[133] State Planning Organization (2006).

[134] In 2004, the cost for a twenty-foot container unit in Turkey was, on average, about €330, compared with €70 in Alexandria (Egypt), €210 in Radès (Tunisia), and €370 in Casablanca (Morocco) (EuroMed Transport Project, 2004).

[135] The port of Antalya was later returned to the public sector. Ownership of the ports' infrastructure is retained by the State, but the operational rights (including management, facilities, and equipment) are transferred to a private investor for 30 years; TDI remains in charge of supervision and monitoring (EuroMed Transport Project, 2004).

[136] All these ports are accessible by railways.

[137] Concerns have been expressed about cross-subsidization of the railways by the port's excess profits within TCCD. The cross-subidization suggests overcharging by the port authorities, or inadequate depreciation and maintenance schedules, or both. This is likely to result in inefficiency in the delivery of port services, affecting Turkey's external trade competitiveness through high import costs; it is a strong barrier to new entrants. See also EuroMed Transport Project (2004).

cabotage) can be foreign nationals.[138] Ships and yachts owned by Turkish and/or foreign persons resident in Turkey and companies incorporated under Turkish legislation, can be registered with the Turkish International Ship Registry in Istanbul, 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".

116. Vessels flying the Turkish flag benefit from a price preference: when bidding for public cargoes to be shipped overseas 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 a foreign flag. Foreign flag vessels are used if: (i) Turkish flag vessels' quotations are more than 10% higher than quotations by foreign flag vessels; (ii) loading is at ports not used by Turkish flag vessels; or (iii) the capacity and/or technology used by the Turkish flag vessel is insufficient for the cargo and route.[139]

117. The tariff system for Turkish ports is based on the principle of non-discrimination between Turkish and foreign flags. According to the authorities, operators freely set their tariffs, and discounts on port dues and charges are linked to the frequency of calls at the port. On 1 August 2003, port fees were reduced by 50%, cabotage carriage fees by 75%, and flashlight fees by 30%. The special consumption tax for fuel used in naval vessels was recently lowered.[140]

118. 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 from operating and "alienating" ships registered 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.[141]

119. Access to ports, pilotage, towing, 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. In 2006, the Turkish flag was moved from the Black to the Gray List of the Secretariat of the Paris Memorandum of Understanding on Port State Control.[142] According to the authorities, Turkey has signed all maritime safety international conventions, and is a member of the Regional Marine Pollution Emergency Response Centre for the Mediterranean Sea (REMPEC).[143]

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[138] 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).

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

[140] A 20% additional reduction is in place for passengers ships promoting tourism.

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

[142] The Black List is composed of flags considered as "very high risk", while the Grey List has "medium to high" risk flags. The White List represents quality flags with a consistently low detention record. Paris MoU, Secretariat report, June 2007. Viewed at: http://www.parismou.org/ParisMOU/Whats+New/News/News+Detail/xp/selectedcontentitem.2868/default.asp.

[143] REMPEC is a UN body established in the context of the Mediterranean Action Plan. Its main objective is to assist Mediterranean coastal states in the implementation of the Emergency Protocol and Barcelona Convention (REMPEC online information. Viewed at: www.rempec.org/about.asp).

(b) Air transport

120. In general, Turkey's air transport is still dominated by the state-owned Turkish Airlines (THY) (Chapter III(4)(ii)). In addition to THY, there are 19 air carrier companies. In 2006, 810 aircraft were registered as Turkish. Turkey has 62 airports operated by the General Directorate of the State Airports Enterprise (DHMI)[144], 37 of which are operated by the State Airports Authority; 21 airports are open to international traffic. As of 2007, the operational rights of the main terminals of certain airports (i.e. Atatürk (Istanbul)[145], Antalya, Esenboğa (Ankara), İzmir Adnan Menderes and Dalaman) were concessioned to private enterprises.[146]

121. Private air carriers have been allowed to establish since the enactment of Public Law No. 2920 on Turkish Civil Aviation in 1983. The MT is responsible for approval of new carriers (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[147]; where there are no company-owned aircraft, a bank letter of guarantee for up to US$3 million is required. However, for regional air transport, a carrier should own or lease at least two aircraft registered in the Turkish Civil Aircraft Registry, with a capacity of between 20 and 99 seats.

122. The majority of a company's executive and authorized representatives must 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. Technical and financial supervision of existing carriers is carried out by the Directorate General of Civil Aviation. In 2005, Law No. 5431 restructured the Civil Aviation General Management, as a public legal entity with its own budget.

123. 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, Bodrum, 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 the basis of reciprocity under the rules of the European Civil Aviation Commission (ECAC), of which Turkey is a member. Cargo transport is under the provisions of Law No. 2920 and relevant articles of the Regulation on Commercial Air Transport Operations, as well as the applicable

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[144] In 2005, all DHMI services (air traffic management, air traffic services, aeronautical communications management, aeronautical information management, and flight inspection services) and DHMI operational services were awarded ISO 9001:2000 in 2005 and 2007, respectively.

[145] The operational rights of the main terminals of the Atatürk Airport were transferred to TAV Airports Holding for 15.5 years (US$3 billion) (General Directorate of the State Airports Authority, 2005).

[146] In April 2005, a new runway and a US$85.5 million terminal, with an annual capacity of 20 million passengers, were open at Antalya International Airport. The new terminal will be managed by a private company, ÇELEBI-IC Antalya Airport Terminal Investment and Management, until 28 September 2009. Antalya Airport International Management is responsible for the operation of the old terminals until 15 September 2007 (General Directorate of the State Airports Authority, 2005). After these dates, the operational rights of domestic and international terminals will be concessioned to the İçtaş-Fraport consortium.

[147] At least three registered aircraft are required in the case of scheduled and non-scheduled domestic flights; the aircraft must have at least 100-seat capacity each.

provisions of bilateral air transport agreements signed by Turkey.[148] An open skies agreement has been concluded between Turkey and the United States, and a de facto open skies agreement exists between Turkey and Germany.[149] According to the authorities, cabotage in air transport is not to be opened to competition from foreign companies.

124. 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 state-owned air companies, except, where possible, Turkish civil servants must use the national airline for official travel.

125. 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 four catering firms, of which two are entirely owned by Turkish companies, and two are a mixed foreign-Turkish partnership. Airlines may also provide groundhandling services for their own use at all airports (self-handling). The prices for these services are market-determined.

126. The prices set air carriers operating scheduled services 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. Since 1 January 2004, air tickets have not been subject to the special transaction tax or education contribution payment.

127. 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. This restriction, according to the authorities, is to ensure that these imports are used only in the civil aircraft industry.

(c) Railway and road transport

128. Turkey's railway system consists of 10,984 km of track, of which 8,697 km are main lines.[150] The most important infrastructure problem is that the lines between highly populated cities are not appropriate for high speed travel.[151] As a result, several projects are being developed to improve the infrastructure, including: the Ankara-Istanbul high speed project (€1,955 million); Ankara-Konya high speed project (€377 million); procurement of, *inter alia*, high-speed trains (€253.2 million), locomotives (€374.5 million), and suburban trains (€102.4 million); rehabilitation of existing suburban trains (€44.1 million); and modernization of stations and station buildings.[152]

129. The Turkish State Railways (TCDD), a state-owned enterprise affiliated to the MT, has a de jure monopoly in providing railway passenger and freight transport services. It owns and operates the whole railway system, together with six ports that have rail access (i.e. Haydarpasa, Iskenderun, Derince, Izmir, Samsun, and Bandirma); five of are under privatization. There are no private rail operators. TCDD is free to introduce fares on a market basis and to increase them, after verbal

[148] Turkey has signed bilateral air transport agreements with 88 partners. Under these agreements, 63 (may change seasonally) foreign airlines are operating scheduled services to Turkey; THY is operating scheduled services to 77 cities abroad.

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

[150] State Planning Organization (2006).

[151] Other problems include: about 95% of the railway network is single track; 3,080 km of rails are old (20 years or more); 2,756 km have steel and wooden sleepers; 2,602 km have non-standard curves; 5,586 km of main lines are without signal; and there is insufficient staff (UNECE, 2006).

[152] Information provided by the authorities.

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.

130. The reorganization of TCDD is one of the key areas for reform under the Ninth Development Plan 2007-13.[153] The main objectives include: 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; and aligning the domestic railway transport legislation with the *acquis communautaire*. An action plan for the restructuring of TCDD over 2003-08 is also being financed by the EC.[154]

131. Turkey has a total highway network of 64,195 km (2,431 km of motorway, 31,335 km of state roads, and 30,429 of provincial roads).[155] The share of highway transport in total freight transport increased from 88.7% in 2002 to about 92% in 2006; around 95% 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: bilateral combined-transport agreements are being signed. According to the authorities, transit quota limitations applied by partner countries continue to prevent the efficient use of Turkey's road transport fleet.[156] Other obstacles to the development of the subsector include: traffic congestion and bottlenecks; expensive charges for using transport infrastructure in third countries; difficulties in obtaining long-term visas for professional drivers; and border-crossing problems (e.g. outdated technology for customs transactions, different transit regimes, and lack of coordination between customs authorities).[157]

132. The MT is responsible for regulating road transport to maintain order and safety 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 services in Turkey are provided by private companies; an operating licence from the MT is obligatory. The General Directorate of Highways is responsible for the construction, maintenance, and operation of roads. In practice, tariffs in the subsector are set freely by operators and notified to the MT. Cabotage is not permitted in road transport: vehicles registered in a foreign country cannot transport goods or passengers between two points within Turkey. Transport of goods or passengers can be provided to, from, and through Turkey only under bilateral or multilateral (e.g. International Transport Forum) agreements or permits issued by the Council of Ministers.

133. In February 2004, road transport for intercity passengers and freight was liberalized under the Law on Road Transport.[158] This law and related regulations are aimed at, *inter alia*, 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.

[153] TCDD is the largest money loser among Turkey's public enterprises. The management of ports provides about a third of its revenues, another third comes from rail traffic, and the rest from government subsidies and non-operating revenues (WTO, 2003).

[154] Includes a twinning project with German Railways (European Commission, 2006).

[155] In 2006, approximately 4,366 km of roads (excluding village roads) were still unpaved.

[156] Turkey has the largest truck fleet in Europe, after Italy. In 2004, Turkey's international road transport fleet consisted of some 32,000 vehicles, with a carriage capacity of 1.4 million tonnes (State Planning Organization, 2006).

[157] UNECE (2006).

[158] Law No. 4925 published in *Official Gazette* No. 25173 on 19 July 2003.

134. In January 2006, the Road Transport Automation (U-NET) system was put into operation. It is a computer-aided system that scrutinizes the road transport subsector, including monitoring and inspecting the market.

(v) Tourism

135. Turkey ranks 9th in the world as a tourism earner (against 11th in 2002), with US$18.1 billion of tourism receipts in 2006 (Table IV.11), up from US$11.9 billion in 2002; this is expected to increase to US$36.4 billion by 2013.[159] Tourism activities have continued to expand rapidly during the last few years, especially in Istanbul and on the western and southern coasts. Large numbers of hotels, guest houses, and holiday apartments have been built. There are also important historical sites, and eco-tourism activities are being introduced. The number of licensed tourist beds rose from 619,024 in 2002 to 783,319 in 2006. In 2006, 28.3% of visitors came from Europe and 59.1% from OECD countries (mainly Germany, 19% of the total). The hotels occupancy rate was about 47.3%.

Table IV.11
Selected tourism indicators, 2005-07

	2005	2006[a]	2007[b]	Percentage change 2005-06	Percentage change 2006-07
Incoming tourists ('000)	21,125	20,816	22,339	-1.5	7.3
Turkish tourists abroad ('000)	8,246	8,180	9,000	-0.8	10.0
Tourism receipts (US$ million)	18,152	18,124	19,800	-0.2	9.2
Tourism expenditure (US$ million)	2,872	2,863	3,200	-0.3	11.8

a Provisional.
b Estimates.

Source: Information provided by the Turkish authorities.

136. 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 under Law No. 1618 and the purview of the Ministry of Culture and Tourism (MCT), is responsible for supervising travel agencies. Within the MCT there is a section responsible for inspection of hotels, holiday villages, yacht enterprises, travel agencies, the professional organization, 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. In general, the State is in charge of investment in tourism sites.

137. The 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 tourism also have access to incentives granted under the Investment Encouragement Programme (Chapter III(2)(iii)(d)).

138. Foreign companies have increased their role in tourism since the mid-1980s; there is no limitation on foreign investment. Foreign and domestic companies set their own maximum prices.

[159] State Planning Organization (2006).

However, the prices must be cleared annually by the MCT. Enterprises are not required to charge uniform prices but cannot exceed their maximum approved prices.

139. The MCT and local administrations are in charge of classification and certification of hotels and restaurants. According to the authorities, the number of beds certified by the MCT and the municipalities are expected to reach 550,000 and 420,000, respectively.

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