

IV. TRADE POLICIES BY SECTOR

(1) AGRICULTURE

(i) Main features

1. Agriculture remains a key sector in Turkey, although its share in the economy has been declining as a result of structural change towards services and industry.¹ Primary agriculture contributed 8.4% to GDP and 25.2% to employment in 2010, which implies that labour productivity was considerably lower than in the rest of the economy. Turkish agriculture is still dominated by small-scale and semi-subsistence family farms², which is why labour productivity has been lagging (the lowest among OECD countries).³ Further integration of the large informal sector (i.e. much of Turkish agriculture) into the market economy requires substantial agricultural policy reform, and modernization of the agriculture sector.

2. Turkey ranks amongst the largest agricultural producers in the world. The main crop is wheat. In the period under review, the country has been a net-importer of wheat (over 90% self-sufficient) and corn (about 80% self-sufficient), and a net-exporter of barley.⁴ Other major crops include fruit and vegetables, nuts, tobacco, cotton, and sugar. Irrigation is used for about half of Turkey's crop land, and agriculture accounts for about 75% of total water consumption. It is likely that agriculture will have to bear the main burden of adjusting to increasing water scarcity.⁵ Turkey is one of the major milk producers in the world, predominantly for domestic consumption of cheese and yoghurt. While Turkey has specialized feedlots and dairy farms, and large-scale commercial poultry farms, livestock production is mainly extensive and small-scale. For livestock products, Turkey is more or less self-sufficient. Foot-and-mouth disease is endemic in parts of Turkey. The last outbreak occurred in 2009, according to the authorities, and the Trace region has been recognized by OIE as an FMD-free region, with vaccination in May 2010.

3. Turkey remains a net-exporter of agricultural products. Since its last Review, the share of agricultural trade (both imports and exports) in Turkey's trade in goods has increased (Tables AI.1 and AI.3). The main traditional exports include hazelnuts (largest exporter in the world), fruit and vegetables, and oriental tobacco. Turkey's main market for agricultural products is the EU, followed by the United States. Turkey uses export subsidies for a number of agricultural products.

(ii) Policy framework

4. As part of the structural reforms of the economy, following the Turkish financial crisis in 2001, the Government launched the Agricultural Reform Implementation Project (ARIP), which marked a significant policy shift towards liberalization and increased market-orientation of the agriculture sector. Steps were taken to abolish traditional instruments of support (administered prices for agricultural commodities, credit, and other input subsidies) and replace them with direct income support, cushioned by some transitional assistance.⁶ The ARIP was phased out in 2008.

¹ The structural adjustment of the agriculture sector has been quite remarkable over the past decades; in 1980 agriculture's shares in Turkey's GDP and employment were at 23% and 50%, respectively.

² The average size of Turkey's 3 million farms is 5 hectares, and holdings are often split up into small parcels because of Turkish inheritance laws (OECD, 2011b).

³ Ministry of Agriculture and Rural Affairs (undated), p. 13.

⁴ Turkish Grain Board (2011).

⁵ OECD (2010a).

⁶ WTO (2003) and (2007).

5. Turkish agricultural policy is governed by the Agricultural Strategy 2006-10, the Agricultural Law (No. 5488) of 2006, and the Strategic Plan (2010-14), which were adopted with a view, *inter alia*, to aligning Turkey's agricultural policy more closely with the EU Common Agricultural Policy. Turkey's main policy objectives are food security and food safety, and raising the self-sufficiency level for selected net-imported products; improving productivity and competitiveness; ensuring sustainable farm incomes; rural development; and improving institutional capacity. The Agricultural Law provides for the continuation of the direct income support policy initiated under ARIP (45%), and specifies complementary instrument to support agriculture: deficiency payments (13%); compensatory and transitional payments (5%); livestock support (12%); crop insurance support (5%); rural development support (10%); environmental payments (5%); and other (5%).⁷ Actual payments have diverged considerably from these targets since Turkey has moved away from direct income support towards deficiency payments and other instruments of support, mainly area-based payments. Agricultural support budget allocations for 2010 were: area-based support (38%)⁸, deficiency payments (32%), livestock support (22%), rural development support (3%), agriculture insurance support (1.25%), compensatory payments (1.35%) and other (2.4%).

6. Since its last Review, Turkey has modified its rural development strategy. Beyond its traditional focus on infrastructure projects, rural development now embraces objectives such as income diversification (e.g. rural tourism), development of human resources, and the preservation of the environment. Rural development is crucial in Turkey, given that most of the rural labour force is employed in agriculture, and education and skills are lacking. As part of the accession partnership between Turkey and the EU, an IPARD framework was established (Pre-Accession Assistance Rural Development Programme), which sets out Turkey's measures for 2007-13 to achieve consistency with EU's rural development policy and the CAP.⁹ The IPARD programme identifies the key sectors requiring further assistance to comply with EU regulations (dairy and meat, fruit and vegetables, and fisheries). IPARD measures (co-financed by the EU) include investment aid to modernize agricultural production, processing and marketing; capacity-building and support for producer groups; environmental measures, and diversification measures. In 2010, Turkey adopted a new national Rural Development Plan (2010-13), which focuses on rural employment, human resources and poverty, settlement and infrastructure, environment and natural resources. Projects involve co-financing the beneficiaries to mobilize private-sector resources.

7. Turkey's institutional and regulatory framework in agriculture is complex. A large number of institutions are involved in implementing agricultural policy, some of which have authority in regulating agricultural markets (including agricultural state-owned enterprises, the Turkish Sugar Authority; and the Tobacco and Alcoholic Market Regulatory Authority). In addition to the restructured Ministry of Food, Agriculture and Livestock, various agencies are responsible for channelling support payments or subsidized credit to farmers, including the Agricultural Bank of Turkey (Ziraat Bank), agricultural credit cooperatives, and agricultural sales cooperatives unions. A feature of Turkish agriculture is its widespread cooperative organization, ranging from production cooperatives (e.g. irrigation and sugar beet cooperatives) to credit and marketing cooperatives.

(iii) Border measures

8. Turkey's applied MFN tariffs on agricultural products, averaging 46.5% in 2011, are generally quite high compared with tariffs on non-agricultural products (WTO definition) (Table III.1). Applied tariffs are highest for meat and live animals, followed by dairy products (Chart III.2). SPS-related

⁷ The numbers in parentheses indicate the Agricultural Strategy's targeted budget allocations for 2010.

⁸ Area-based support encompasses a number of measures, including input subsidies, support for hazelnuts, support for organic farming, and soil analysis.

⁹ Ministry of Agriculture and Rural Affairs (undated).

import restrictions on meat and live animals maintained since 1996 were relaxed in 2010 (Chapter III(3)(iii)). In 2010-11, Turkey allowed tariff-quota imports of beef and slaughter cattle.¹⁰ Applied tariffs are comparatively low on production inputs and raw materials such as cotton, oilseeds, or seeds and breeding animals. Applied tariffs on some commodities such as wheat, rice, and red meat, have been adjusted temporarily to respond to supply and demand conditions on the domestic market. Turkey has some latitude in this regard, given the considerable gap between applied and bound tariffs (Chart III.2).

9. Applied MFN tariffs on processed agricultural products comprise an agricultural component and an industrial component: the latter is subject to the applicable EU common external tariff. For imports from the EU, the industrial component is duty free, while the agricultural component is subject to preferential tariffs. In addition, duty-free tariff quotas apply for imports of certain processed agricultural products from the EU.

10. Turkey has no WTO tariff-quota commitments but maintains numerous tariff quotas under preferential agreements (Table AIII.5). The Government has also been using unilateral tariff quotas as a trade policy instrument to facilitate imports. The Ministry of Economy is responsible for tariff quota licensing procedures. Tariff quotas are generally allocated on the basis of first-come-first-served and/or past-performance criteria, as published through communiqués in the *Official Gazette*. Under the past-performance method, part of the tariff quota is allocated equally to applicants and the remainder is allocated taking into consideration, *inter alia*, the import performance and the production and consumption rates of the importer/producers. There are no charges or fees for tariff-quota applications.

(iv) Domestic programmes

(a) Direct income support

11. Direct income support was first introduced in 2001 to align Turkey's system of agricultural support with the "single payment scheme" under the EU reformed CAP. The payments to Turkish farmers were to partially compensate their income losses arising from the removal of administered prices (i.e. guaranteed minimum prices). Payments were set at a uniform rate, up to a ceiling of 50 ha, with no requirement to produce anything in order to receive the payment. Such schemes can help reduce the distortions in the agriculture sector since they are not linked to the type of crop or the volume of production. The DIS scheme covered about two thirds of Turkey's agricultural area in 2008 but was phased out in 2009. The National Farmer Registration System was established to implement the direct income support scheme. The OECD notes that "an accurate, reliable and transparent" registry is critical for the functioning of direct payments and other area-based payments.¹¹ It appears, however, that a lack of familiarity with decoupled payments, payments delays, and other concerns made the direct income support scheme unpopular among farmers. The authorities note that Turkish agricultural policy is in a process of transition and that the Government plans to provide direct payments in the future, while the agricultural support model applied in the EU will be adopted after full membership. Turkey is taking steps in this direction. The authorities expect that the Strategy on the Identification of Agricultural Lands, and the National Farmer Registration System will enable

¹⁰ Tariff quotas were opened for 7,500 tonnes of beef at an in-quota tariff of 25% and for 16,000 tonnes of live slaughter cattle at 10% import duty. A duty-free tariff quota equivalent to 100,000 tonnes of live bovine animals (excluding for pure-bred breeding) has been allocated for the usage of the Meat and Fish Board until end 2011.

¹¹ OECD (2011b).

Turkey to meet the EU Land Parcel Identification System (LPIS) standards and enhance its capacity for implementing decoupled supports.¹²

12. Most of Turkey's domestic agricultural programmes provide incentives to producers through instruments such as deficiency payments or input subsidies, to stimulate production of selected net-imported crops and livestock products. For surplus crops, the Government tends to favour supply management through production controls or incentive payments encouraging farmers to switch to alternatives. There are also intervention purchase programmes implemented by state-owned enterprises (see next section).

(b) Deficiency payments

13. The effect of a deficiency payments scheme on production is similar to that of an administered price system as it guarantees producers a minimum price. During the review period, deficiency payments were granted mainly for wheat, cotton, sunflowers, maize, tea, barley, and milk (Table AIV.1). The deficiency payments are made in the form of premium payments per unit of output, and have varied considerably from year to year. The payment rates are determined on the basis of production costs, market conditions, and budgetary considerations. Sunflower seed, soybean, rapeseed, safflower, olive oil, cotton seed, and tea are the commodities eligible for deficiency payments in 2011. In 2010, a novel deficiency payment scheme was introduced, whereby payments per kg or head of livestock are differentiated between Turkey's 30 agricultural regions (basin-based support programme). The related legislation requires the Cabinet to determine "the agricultural basins where agricultural production is to be concentrated, supported, organized and specialized according to the regions' ecological conditions". The objective of the programme is to increase productivity, with crops to be produced based on the most suitable ecological conditions. The boundaries of these 30 agricultural basins were established in 2009, based on a model developed by the Ministry of Food, Agriculture and Livestock.

(c) Input subsidies

14. Input subsidies include concessional loans and support for livestock (see below) (Table AIV.1). Concessional loans carry a subsidy element ranging from 25% to 100%.¹³ Diesel and fertilizer subsidies were introduced in 2007 to recipients of direct income support. While direct income support payments have been terminated, diesel and fertilizer subsidies continue. The subsidies are paid on a per-hectare basis and vary by crop. Diesel payments range from TL 2 to 5/ha for fruit and vegetables, to TL 60/ha for industrial crops; the respective fertilizer payments range from TL 3 to 5/ha to TL 60/ha. Insurance for crops and livestock against natural disasters was introduced in 2006; 50% of the premiums are subsidized (Agriculture Insurance Law No. 5363 of 2005).

(d) Livestock support

15. Domestic support for livestock includes milk incentive premiums for milk delivered to dairies (deficiency payments), support for imported breeding cattle for "livestock improvement" (Table AIV.1), support for artificial insemination, and feed crop premiums. Under the Investment

¹² The Government also plans to establish an Integrated Administration and Control System (IACS), a tool used by the EU for managing the system of payments to agricultural land and other instruments of the Common Agricultural Policy.

¹³ Activities eligible for concessional loans include good agricultural practices, organic farming, production of certified seeds, agricultural research and development, breeding dairy cattle, irrigation, mechanization (except tractors and harvestors), greenhouse horticulture, medicinal crops, milking units, and cooling tanks.

Encouragement Programme (Chapter III(1)(iv) and (3)(i)), which has regional and horizontal objectives for the Turkish economy as a whole, certain investments in primary agriculture qualify for incentives (tariff and tax exemptions, interest rate subsidies). Eligible investments include dairy farms with at least 150 cattle and dairy product manufacturing, integrated with fodder production and/or cold storage warehouse; feedlots (with at least 150 cattle per fattening period) integrated with a slaughterhouse and cold storage warehouse and/or fodder production unit and/or meat production unit; greenhouse production; and mushroom cultivation.¹⁴

(e) Production controls

16. Under ARIP, one-off transitional payments were made to producers of hazelnuts and tobacco to address structural surpluses and to encourage farmers to grow alternative (deficit) crops, such as oilseeds, feed crops, and corn. The deadline for production control measures in tea with income compensation payments expired in August 2011 (i.e. payments for pruning, after which tea leaf output drops). As previous measures to control hazelnut production have proved ineffective, according to the OECD, hazelnut producers have received payments since 2009 based on a fixed area (TL 1,500/ha per year).¹⁵ Sugar beet production is restricted through a national sugar quota (2.2 million tonnes in 2011). The quota is fixed annually by the Sugar Board and allocated to sugar factories.

(f) Environmental measures

17. Environmental issues, particularly soil erosion and overuse of water resources because of poor water management, have become a concern in Turkish agriculture, as reflected in Turkey's Agricultural Strategy and the Rural Development Strategy. Since 2005, environmental payments have been made under the Environmentally Based Agricultural Land Protection Programme (ÇATAK), to compensate farmers for setting aside land and using soil conservation techniques in environmentally vulnerable areas (see "land compensation" in Table AIV.1).¹⁶ Area-based payments range from TL 300 to TL 1,350 per ha. Organic farming and "good agricultural practices", aimed, *inter alia*, at protecting natural resources, traceability, and food safety, are also supported. Support under good agricultural practices is at TL 200/ha for fruits and vegetables, TL 800/ha for greenhouses, and TL 250/ha for organic farming.

(v) **Agricultural state-owned enterprises**

18. Some agricultural state-owned enterprises (SOEs) continue to play a role in production, processing, and marketing of agricultural products, and in supporting and regulating designated agricultural commodity markets on behalf of the Government but, overall, the significance of SOEs has diminished. SOEs include the Turkish Grain Board (TMO), the Turkish Sugar Factories Corporation (TŞFAŞ), the Tobacco, Tobacco Products, Salt and Alcohol Enterprise Corporation (TTA), the Meat and Fish Board (EBK), and ÇAYKUR (tea) (Table III.19). Budgetary transfers to cover the debts and "duty losses" of SOEs have been substantial (Table AIV.1). The TTA¹⁷ and the TŞFAŞ are in the process of privatization, while the TMO (for cereals) and EBK (meat processing) are to be restructured as paying agencies in accordance with the EU harmonization programme.

¹⁴ WTO document G/SCM/N/186/TUR, 2 March 2010.

¹⁵ OECD (2011b).

¹⁶ Soil Conservation and Land Use Law No. 5403. See WTO (2007).

¹⁷ Formerly named TEKEL; the tobacco production unit of TEKEL was privatized in 2008 (OECD, 2011b).

19. Most administered prices, including for cereals and paddy rice, have been abolished since 2002. However, some of the SOEs, such as the TMO, continue to set purchase/intervention prices, which, according to the authorities, are fixed by the respective board of directors in line with market conditions. With the exception of opium, the SOEs do not operate as the sole buyer or seller in the domestic market nor do they hold an export monopoly.¹⁸ The TMO had a maximum market share of 18% in 2007-10 in terms of purchases of Turkey's annual wheat production (17% for barley, and 19% for corn).¹⁹

20. The OECD notes that agricultural SOEs have systematically benefited from payments from the Treasury to bridge the gap between purchase/intervention prices and export prices (duty loss) (Table AIV.1).²⁰ Article 35 of Decree law No. 233 provides that a "duty loss" may occur (i) when SOEs are assigned a task (duty) related to their activities by the Council of Ministers and a loss occurs or profit is forgone due to this task; and (ii) when prices of the goods and services produced by SOEs are determined by the Council of Ministers and these prices are below cost. The authorities claim that no export subsidies are being implemented by state-owned enterprises. They note that SOE losses arise from various "duties", including hazelnut purchases and sales.

21. The TMO sells domestic wheat at world market prices to domestic manufacturers of flour and pasta in volumes that are related to their exports of flour and pasta; and exports surplus stocks through international competitive tenders (in accordance with the Turkish Grain Board Tender Regulation).²¹ TMO is also responsible for holding emergency stocks (Decree Law 2006/10506). These activities have involved duty losses, as domestic wheat prices have been substantially higher than world market prices.²²

22. In tobacco, the export share of TEKEL/TTA (compared with the private sector) varied between 29% and 68% in volume terms in 2007-10. The TTA does not enter into contracts for tobacco production nor does it purchase tobacco from other firms. ÇAYKUR export prices for tea are determined by its Board of Directors on the basis of world market prices. Manufacturers that use sugar as a raw material are eligible to purchase domestic sugar production at world market prices (C sugar).

(vi) Export measures

23. Turkey maintains an export subsidy programme for agricultural products with the aim of developing its export potential in value-added processed agricultural products.²³ Sixteen product groups are eligible to receive export subsidies (Table AIV.2). Turkey's WTO export subsidy reduction commitments cover 44 product groups (at the HS four-digit level).²⁴ Export subsidies are

¹⁸ The TMO is responsible for purchasing and exporting all of Turkey's opium production at prices announced by Council of Ministers' Decision.

¹⁹ The TMO's purchase (intervention) prices and sales prices are determined, taking into account "production costs, inflation rate, production quantity, developments in the world markets, prices of previous year and sustainability of the production". See Turkish Grain Board (2011).

²⁰ OECD (2011b), p. 43.

²¹ In the Committee on Agriculture, Turkey responded to questions regarding implementation of its commitments for exports of wheat flour (WTO document G/AG/R/51, 6 June 2008).

²² Directorate General of State Owned Enterprises (2008), p. 84. See also Undersecretariat of Treasury online information, "State Owned Enterprises Statistics". Viewed at: http://www.treasury.gov.tr/irj/portal/anonymous?NavigationTarget=navurl://263c93ab665e5050055e7fe7606_abf8f_&LightDTNKnobID=-1969438794.

²³ WTO document G/SCM/N/186/TUR, 2 March 2010.

²⁴ WTO online information. Viewed at: http://www.wto.org/english/thewto_e/countries_e/turkey_e.htm.

granted in the form of reductions of the exporters' debts *vis-à-vis* public corporations (for example, deduction of taxes, telecommunications or energy bills). Export refunds are specified through annual decree and administered by the Ministry of Economy; goods must be of Turkish origin and of marketable quality. All destinations are eligible, including to the EU.

24. Exporters of agricultural products are eligible for generally available export credits (Chapter III(2)(iv)). Export taxes are levied on hazelnuts and raw skins (Chapter III(2)(ii)). Turkey prohibits exports of a number of agricultural products (Table III.14). Export licensing applies to sugar and feedstuffs for monitoring purposes (Table III.15).

(vii) Evolution of support and protection

25. This overview of support and protection of Turkish agriculture relies to a large extent on OECD data and analysis, since Turkey has not provided any domestic support and export subsidy notifications to the WTO since 2002. Members have expressed concern about Turkey's outstanding notifications in the Committee on Agriculture.²⁵ Since its last Review, Turkey has abandoned its direct income support policy and increased considerably the level of market price support, deficiency payments, and other production-stimulating instruments of support, in particular on net-imported products.²⁶

26. Market price support remains the main instrument of support to Turkish agriculture: it encompasses all policy measures that raise the domestic price relative to the border price of the commodity concerned, including border measures (tariffs, tariff quotas, and other import restrictions); intervention prices, and export subsidies. In the period under review, about 80% of Turkey's Producer Support Estimate (PSE)²⁷ has been production-stimulating market price support, pushing domestic commodity prices above international prices and "taxing" Turkey's consumers in a manner that is not transparent for them (the remaining 20% has been budgetary payments under domestic programmes). Turkey's market price support has increased in recent years, mainly due to higher domestic prices rather than lower world market prices. However, market price support tends to be capitalized in the value of agricultural land, as a result of which only a small fraction of the support ends up as farmers' income; it also impedes expansion in farm size and growth in productivity. Moreover, market price support distorts the price signals for farmers to respond to market demand and produce the products in which Turkey has a comparative advantage. Green Box measures have low priority in Turkey's agricultural budget, although experience from other countries shows that research, training, and extension have positive long-term effects for productivity and competitiveness.

27. The nominal protection coefficients (NPC) of some of the main commodities are generally higher than the OECD average, reflecting Turkey's high levels of market price support.²⁸ The average NPC was 1.23 in 2010, meaning that Turkey's average producer prices were about 23% higher than border prices (Chart IV.1).²⁹ The effective protection rates may be lower for products where negative tariff escalation exists, for example, processed dairy, meat and grain products.

²⁵ WTO document G/AG/R/60, 19 January 2011, p. 6.

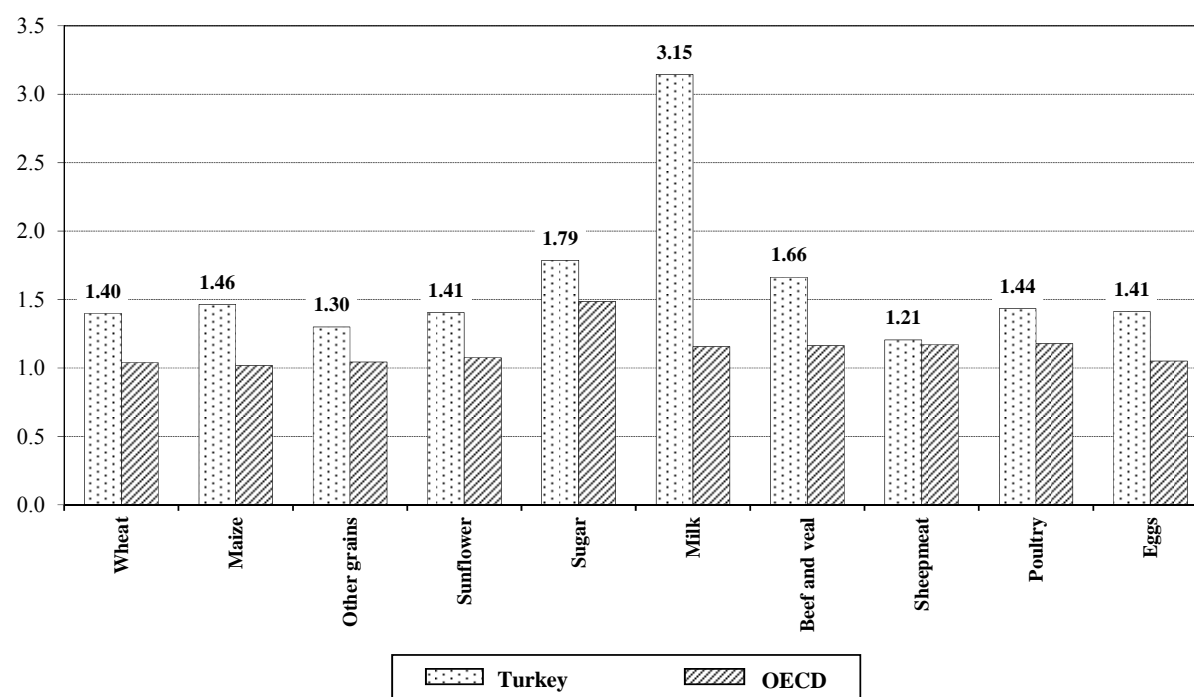
²⁶ Turkey has no domestic support reduction (AMS) commitments under the Agreement on Agriculture. The applicable *de minimis* ceiling of support is 10% of the value of production.

²⁷ PSE is total annual monetary transfers to farmers individually (not agriculture generally) from: market price support mainly through border measures but also food aid, export subsidies (calculated by the price gap between domestic and border price); payments to farmers; and tax/fee reductions (revenue forgone).

²⁸ The average producer price includes payments based on current output, e.g. deficiency payments, which are not included in the estimate of market price support.

²⁹ OECD (2011a).

Chart IV.1
Nominal Protection Coefficients of selected agricultural commodities
2007-09 average



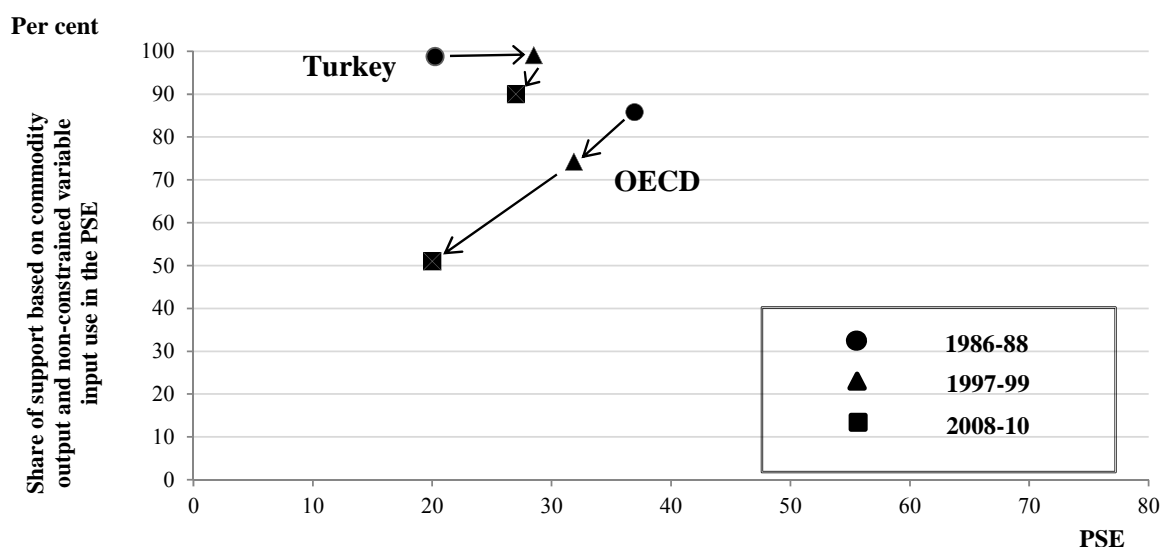
Source: OECD, PSE/CSE database, 2010.

28. Overall, though substantial increases in support and protection for agriculture, Turkey's agriculture has become less market oriented. According to the OECD, the level of support (PSE) in Turkey, measured as a percentage of gross farm revenues, declined in relative terms from 38% in 2006 to 25% in 2008 rising to 28%, in 2010, meaning that 28% of farmers' revenues were due to support policies (financial support, tariff and other border protection).³⁰ While the long-term OECD trend has been declining levels of support (percentage PSE), Turkey has been moving in the opposite direction (Chart IV.2). Turkey's percentage PSE has long been lower than the OECD average, but now exceeds it. Moreover, contrary to the OECD trend, Turkey continues to deliver most of its support and protection in the potentially most trade-distorting manner (support tied to production or input use). Turkey has become an outlier in the OECD because (i) the value of its support to agricultural producers (in absolute terms and as a percentage of the agricultural production value) is increasing; and (ii) an increasing portion of its support is provided in the most trade-distorting ways.

³⁰ The percentage PSE is a useful indicator for comparisons over time and among countries, *inter alia*, because it eliminates the effect of inflation.

Chart IV.2

Turkey's level and composition of support to agricultural producers



Note: The level of support is presented by the percentage PSE. The composition of support is presented by the share in gross farm receipts of market price support, payments based on output and payments based on non-constrained variable input use.

Source: OECD, PSE/CSE database, 2010.

(2) ENERGY

29. Turkey's primary energy consumption totalled 80.5 million tonnes of oil equivalent (toe) in 2009. Although consumption declined between 2007 and 2008 due to the slowdown of economic activity, on average Turkey's energy market has expanded by 4% annually over the past decade. Fossil fuels (coal, oil, natural gas) constitute almost 90% of the present energy supply. As Turkey has a young and urbanizing population and its per capita consumption is still below the average of industrialized countries, it is expected to experience the fastest medium- to long-term growth in energy demand among members of the International Energy Agency.³¹ By 2020, Turkey's primary energy demand is expected to reach 222 million toe.

30. The projected increase in energy demand will require considerable investments to expand the energy infrastructure. As the private sector is expected to lead the way in financing these investments, the Turkish Government has taken steps to reduce its own involvement on the supply side, and provide a more transparent, predictable, liberalized and competitive framework for privately owned operators in the energy market. Between 2001 and 2007, Turkey passed new legislation to reform the energy sector, including the Electricity Market Law (2001), the Natural Gas Market Law (2001), the Petroleum Market Law (2003), the Liquefied Petroleum Gas (LPG) Market Law (2005), the Law on the Utilization of Renewable Energy Sources for the Purpose of Generating Electrical Energy (2005), the Energy Efficiency Law (2007), the Law on Geothermal Resources and Natural Mineral Waters (2007), and the Law on Construction and Operation of Nuclear Power Plants and Energy Sale (2007). The Energy Market Regulatory Authority (EMRA) was established in 2001 to perform independent regulation and supervision of the market and its operators. Despite the reform efforts, Turkey's market for petroleum and petroleum products is still dominated by large state-owned

³¹ IEA (2009).

or former state-owned enterprises, i.e. the Turkish State Petroleum Company (TPAO), the Turkish Petroleum Refinery Corporation (TÜPRAŞ), and the Petroleum Pipeline Corporation (BOTAŞ).

(i) Oil and oil products

31. Turkey has its own resources of oil and natural gas, but domestic production covers no more than 8% of its needs. Turkey's oil resources are owned by the State, which grants licences for exploration and production. TPAO, which is wholly state-owned, accounts for almost 75% of domestic production, the remainder is extracted by smaller independent upstream companies. Imported crude oil (17.3 million tonnes in 2010) is predominantly sourced from Iran, the Russian Federation, Saudi Arabia, and Iraq.

32. TÜPRAŞ, which was privatized in stages in 2005 and 2006, controls nearly all the refining capacity in Turkey.³² However, the EMRA has issued licences to two enterprises to build new refining capacity, as well as wholesale licences to 52 domestic and foreign companies. In 2010, the wholesale enterprises imported some 8.5 million tonnes of petroleum products. Turkey also imported 3.7 million tonnes of liquefied petroleum gas in 2010, supplementing domestic production of 650,000 tonnes.³³ The EMRA has licensed nearly 24,000 operators to engage in importation, refining, transportation, storage, wholesale or retail trade in petroleum products and LPG by the end of 2010. The pricing of petroleum products was liberalized on 1 January 2005.

33. The main objective of Turkey's energy policy is to ensure supply security. The stockholding capacity remains limited. On the other hand, Turkey has secured agreements with some of the world's major suppliers of oil and gas in its vicinity. The agreements have also enhanced Turkey's status as an important transit country. Two major international oil pipelines cross Turkey: the Iraq-Turkey pipeline with a throughput capacity of 1.4 million barrels/day and the Baku-Tbilisi-Ceyhan crude oil pipeline, which may transport 1.2 million barrels/day. Further pipeline projects are under consideration.

(ii) Natural gas

34. Turkey's consumption of natural gas has increased rapidly since it was introduced as a source of energy on a commercial scale in 1987. In 2008, natural gas overtook oil as the principal source of primary energy. Of the 37.4 billion cubic metres consumed in 2010, around half was used in gas-fired power plants; industrial and other commercial users took 32%, while households consumed the remaining 17% (district heating, cooking, etc.). As Turkey's domestic production of natural gas is now negligible, the gas is mostly imported on long-term (20 to 25-year) contracts. Turkey has concluded eight sales and purchase agreements with six supplying countries; the Russian Federation, Turkmenistan, Iran, Azerbaijan, Algeria, and Nigeria. The natural gas from the Russian Federation, Iran, and Azerbaijan arrives via pipelines, while gas from Algeria and Nigeria is shipped in the form of LNG.³⁴ Turkey has a connection with Greece for export purposes. Planned pipeline projects may further diversify Turkey's sources of imports and strengthen its role as a transit country. In particular, the Nabucco Pipeline Project, linking consumers in Central and Eastern Europe with gas from the Caspian Sea and possibly also suppliers in the Middle East, gives Turkey a key role in opening the fourth supply corridor for natural gas into Europe.

³² TÜPRAŞ is currently a joint-venture between Koç (51%) and Shell (49%).

³³ A particular feature of the Turkish market is the use of LPG as an automotive fuel.

³⁴ Although the 30-year contract with Turkmenistan was signed in 1999, implementation still requires the establishment of transit regimes and the construction of pipelines.

35. The purpose of the 2001 Natural Gas Market Law was to harmonize Turkey's legislation with the EU *acquis*, reduce the role of the State in the sector, and establish a truly competitive gas market in Turkey, thus breaking up the monopoly of BOTAS. Unbundling its transmission, distribution, and trading activities (by 2011), the intention has been to privatize the storage and trading arms of BOTAS. The state-owned company will continue to operate a monopoly on the pipeline transmission grid, with private companies operating competitively in all other segments of the market.

36. The EMRA, the licensing, regulatory, and surveillance authority, began issuing licences to operators in the natural gas market in November 2002, and had issued a total of 198 licences by May 2010. However, even though the Law envisaged limiting the share of any importer or wholesaler to maximum 20% of the market by 2009, BOTAS still dominates the wholesale market for natural gas. BOTAS was given the option of reducing its share by contract transfer or volume transfers to private enterprises, but the implementation of the contract release programme has been slow. A tender for 4 billion cubic metres per year for 15 years (12% of the current import volume) was held in 2005. All four companies that won the tender had begun importing gas by April 2009. Nevertheless, as suppliers of gas have been reluctant to conclude contracts with companies other than BOTAS, its share of Turkey's gas imports remained at 84% in 2010.³⁵

37. Turkey has been significantly more successful in its deregulation efforts on the distribution side. In order to stimulate the use of natural gas in district heating, Turkey has been divided into 60 distribution regions, with the EMRA awarding distribution licences through an auction system. Successful bidders have also undertaken commitments to invest in extensions of the local distribution networks. Except for two regions (Istanbul and Ankara), where privatization is currently under way, the distribution of natural gas in Turkey's cities is now in the hands of the private sector. As for power generation, the privatization process for the Hamitabat gas-based power plant, owned by the Electricity Generation Co. Inc. (EÜAŞ), commenced in 2011.

38. Third-party access to the distribution and transmission network is regulated and non-discriminatory. The operators must demonstrate to the EMRA that their operations are cost-efficient and reliable. The EMRA regulates and approves transmission and all retail tariffs, and will continue to regulate storage tariffs until the market has become more competitive. The tariffs set by the distribution companies comprise the city-gate gas price paid to the suppliers plus a service and depreciation charge, determined by their tender.

(iii) Coal

39. Turkey has significant proven reserves of coal, mostly lignite.³⁶ The domestic coal is primarily absorbed in electricity generation (87%), but locally mined coal is also used in industrial processes as well as for heating. Turkey's production of lignite rose by nearly 10 million tonnes from 2000 to 2010 due to the rising demand for electricity. Turkey is self-sufficient in lignite consumption, whereas it imports around 90% of hard coal demand. Hard coal is imported in the form of steam coal from the Russian Federation, and coking coal from the United States and other suppliers (e.g. Australia, Colombia, South Africa).

40. Of the 72 million tonnes of coal mined in Turkey in 2010, 92% was produced by three state-owned companies (the Turkish Coal Enterprises (TKI), the Electricity Generation Co. Inc. (EÜAŞ), and the Turkish Hardcoal Enterprises (TTK). However, as much as 35% of their reported production

³⁵ The Law was amended in 2008 to liberalize spot and long-term imports of LNG. By 2011, 26 companies (including BOTAS) had been granted import licences for LNG.

³⁶ The quality of Turkish lignite is generally poor.

is effectively mined by sub-contracted private-sector companies.³⁷ TKI and TTK determine their own prices for hard coal and lignite, taking into account world market prices, but the Turkish Government may also intervene in the price setting for economic or social reasons.

41. Large-scale surface operations allow lignite to be produced at relatively low cost in Turkey. TKI has therefore been able to establish prices that cover its costs, and the company has been profitable since 1995. By contrast, TTK's production costs are well above comparable world market prices for the end product.³⁸ TTK accumulated losses of some US\$2.3 billion between 2000 and 2009, covered by capital injections from the Treasury. In 2010, TTK losses amounted to approximately TL 450 million, or nearly US\$30,000 per employee. The Treasury and other related institutions have launched a study to restructure TTK to minimize the company's losses.

(iv) Electricity

42. The demand for electricity in Turkey has followed the same trend as the expansion in output over the last ten years, but at a faster pace.³⁹ Projections suggest that the consumption of electricity, which was 209 billion kWh in 2010, may rise to 370-390 billion kWh by 2019. At present, roughly half of Turkey's electricity is generated in gas-fired power stations, one quarter is derived from the burning of coal, and the remaining quarter consists of hydropower and other renewable sources of energy. Turkey's power grid is linked to its neighbours, and some exchanges of electricity take place in the course of the year; however, the volumes are modest.⁴⁰

43. The 2001 Electricity Market Law, amended in 2008, and secondary legislation pertaining to licensing, tariffs, grids, distribution, imports and exports, and balancing and settlement, constitutes the legal framework regulating the sector. The 2001 Law unbundled the vertically integrated state-owned electricity company (TEAŞ) into three separate entities responsible for generation (EÜAŞ), transmission (TEİAŞ), and wholesale trade (TETAŞ). The Turkish Electricity Distribution Company (TEDAŞ) was also restructured in 2005, and regional distribution companies were formed and prepared for privatization. Private-sector participation in power generation and distribution has been allowed since the mid 1990s, and the EMRA has become the regulator and licensing authority for all operators engaged in generation, transmission, distribution, wholesale, retail, importation, and exportation.⁴¹ The regime foresees the dominance of private enterprises in all activities, except transmission. Licences are granted for minimum 10 years and maximum 49 years.⁴² Further plans for reforms, including a road map for a new wholesale market regime, are outlined in the Electricity Market and Security of Supply Strategy Paper of May 2009. A major step was taken in early 2011 as customers purchasing more than 30,000 kWh per year were allowed to enter the wholesale market and

³⁷ TKI has leased or sold some of its mines to the private sector. EÜAŞ tendered a contract to produce and supply lignite to one of its power stations in 2007. A subsequent tender for another two power stations was eventually cancelled after evaluation of the bids. Pursuant to the Mining Law (2004), the TTK has used an option to transfer some of its rights to private undertakings on a royalty payment basis.

³⁸ Due to the geological conditions at the existing sites, the mining of hard coal is very labour intensive in Turkey. In 2008, TTK's production costs averaged US\$289 per ton, whereas the price per ton obtained in the domestic market ranged from US\$50-55 in power generation to US\$180 in iron and steel production.

³⁹ On average, the demand for electricity outpaced the growth in GDP by 1.4% annually between 2000 and 2010.

⁴⁰ On average, Turkey has exported 2 billion kWh per year and imported 1 billion kWh.

⁴¹ A separate licence is required for each activity and each facility.

⁴² BOT and similar arrangements concluded prior to the 2001 Law remain valid until their expiry.

thus negotiate directly with their supplier of choice.⁴³ The strategy foresees that all consumers, including households, should be able to choose their suppliers by 2015.

44. Retail tariffs (i.e. for "non-eligible" customers), network tariffs and the wholesale prices of TETAŞ are regulated. The wholesale tariffs are now fully cost-based. Artificially low end-user tariffs, at times below production costs, have contributed to occasional supply shortages in the past.⁴⁴ A new retail pricing mechanism was introduced in July 2008, involving automatic quarterly tariff adjustments based on changes in input prices (coal and natural gas), inflation, and movements in exchange rates. All distribution companies are being subject to a uniform national retail tariff, approved by the EMRA, until the end of 2012. The present system involves a certain amount of cross-subsidization due to cost differences between regions. From 2013 onwards, the distribution companies will establish individual price caps, subject to the approval of the EMRA.⁴⁵

45. Private investment accounted for 75% of the new installed power-generation capacity between 2002 and 2009. So far, private-sector operators have favoured gas-fired generation because of the short lead times. Further new capacity to meet the projected rise in demand is likely to come from coal, hydropower, wind, and nuclear energy rather than natural gas. Turkey has no nuclear reactors at present, but signed an intergovernmental agreement with the Russian Federation for the construction and operation of a nuclear power plant at Akkuyu on the Mediterranean coast, in May 2010. Sinop (on the Black Sea) has been identified as the site for the construction of a second nuclear power plant.

(v) Renewable energy

46. Although Turkey has steadily added new hydropower stations to its generation network, the share of renewables in Turkey's total primary energy supply declined from 17% in the mid 1990s to 9.4% in 2009. The decline reflects the growing use of natural gas in power generation, but also a massive shift from traditional use of biomass (fuelwood) to more modern forms of heating. The share of renewables rose in 2010 as new hydro and wind power plants were coming on stream. As of 2011, Turkey had an estimated 16,160 MW of installed hydropower capacity in operation and a further 14,600 MW under construction; wind-power capacity in operation amounted to 1,360 MW with an additional 2,130 MW under construction. Turkey has established an overall target for renewable energy to constitute 30% of its electricity supply by 2023, including capacity targets for wind (20,000 MW) and geothermal energy (600 MW). The Turkish authorities also see some potential in solar energy and biomass.

47. The legal framework, i.e. the Law on the Utilization of Renewable Energy Sources for the Purpose of Generating Electrical Energy (2005) together with the Electricity Market Law and the Energy Efficiency Law, includes several instruments to promote electricity generation from renewable sources of energy including feed-in tariffs and purchase obligations, connection priority, reduced licence fees, and reduced fees for project preparation and land acquisition. Furthermore, the 2005 Law was amended in January 2011 to introduce bonus tariffs for licence holders using locally manufactured mechanical or electro-mechanical components. Under an implementing regulation issued on 19 June 2011, the beneficiaries must obtain a manufacturing certificate attesting

⁴³ The eligibility threshold was 9 GWh per year when the wholesale market was first opened in March 2003, and was reduced to 3 GWh per year in 2007.

⁴⁴ Low tariffs, *inter alia*, caused TEDAŞ to accumulate TL 4.5 billion in operating losses between 2006 and 2008, and payment arrears affecting its suppliers of coal (TKİ) and natural gas (BOTAŞ).

⁴⁵ The transition period contracts mandating the electricity trade between TETAŞ and the distribution companies will expire by 2013.

that the components comply with international or Turkish standards, as well as a "manufacture status document" certifying that the components are manufactured in Turkey.

(vi) Energy efficiency

48. According to the International Energy Agency, Turkey has significant potential to improve the efficient use of energy in all sectors. A more sustainable transport system could save energy, avoid congestion, and improve air quality. Buildings, which represent 37% of the final energy consumption, appear to offer the largest gains at low cost. Turkey's Energy Performance Regulation (2009), which sets the rules for policies indicated in the Energy Efficiency Law (2007), harmonizes Turkey's requirements with those of the Energy Performance of Buildings Directive No. 2002/91/EC. The regulation covers the energy performance of heating, cooling, thermal insulation, hot water, and electrical and lighting systems in dwellings as well as in commercial and services facilities, and provides an energy-savings potential of 30-50% in buildings. Efficiency-enhancing projects may also be viable for industrial users.

49. The distribution system for electricity is prone to significant losses and theft, although estimated losses and theft fell from 25% in 2002 to 14% in 2009. The tariff system is designed to encourage distributors to pursue such leakages. From 2013, distribution tariffs will include a "loss-theft" adjustment component, rewarding distribution companies that beat their target loss-theft ratio.

50. Turkey's per capita carbon emissions are increasing. Turkey became a party to the Kyoto Convention in 2009, but has preferred not to set an overall quantitative target to limit CO₂ emissions or a national emission target for 2020.

(3) MANUFACTURING

51. Turkey's transformation from an agrarian economy to manufacturing on a significant scale began in earnest in the early 1980s. Turkey is now a major producer and exporter of a wide range of machinery, appliances, and other industrial goods, as well as jewellery and furniture. Three of the most prominent manufacturing sectors are highlighted below. The most notable trend over the years has been the relative decline in the share of textiles and clothing in total exports, as the sector played a key role in the earlier part of Turkey's export-oriented industrialization phase.

(i) Automotive sector

52. Turkey was the world's 16th largest manufacturer of motor vehicles in 2010. In Europe, Turkey is the leading manufacturer of commercial and light commercial vehicles, and the second most important manufacturer of buses. Turkey's motor-vehicle industry consists of 15 assemblers and manufacturers, and some 800 suppliers of components. The components subsector employs approximately 150,000 workers, while more than 40,000 people are employed in the assembly and manufacture of vehicles. Annual production capacity exceeds 500,000 units of commercial vehicles and 800,000 passenger cars.⁴⁶ Turkey exported motor vehicles and spare parts worth almost US\$17 billion in 2010. About 73% of the production is exported to the EU, mainly to France, Germany, Italy, and the UK.⁴⁷

⁴⁶ The industry's objective is to raise its production capacity to 2 million units per year in the short-term, and to 4 million units by 2023.

⁴⁷ At the same time, about 60% of all motor vehicles sold in Turkey are imported. For passenger cars, the import share is close to 70%.

53. The industry is mostly foreign owned, joint ventures, or operating under foreign licence. Turkey has five passenger-cars manufacturers; Oyak-Renault, Tofaş (a Fiat S.p.A. and Koç Holding partnership), Toyota, Hyundai Assan, and Honda Turkey. Ford Otosan and Tofaş are the principal producers of commercial vehicles, followed by seven other manufacturers. Turkey also has two manufacturers of tractors. Although the Turkish industry has been expanding rapidly, Otoyol and Askam (commercial vehicles) as well as Uzel Makine (tractors) have left the sector since 2007. The global financial crisis also had a negative impact on many of Turkey's smaller component makers.

54. Investment in Turkey's automotive industry has been attracted by relatively low labour costs, duty-free access to the EU market, and the good quality of the local components industry. Although Turkey does not host its own automobile brand, many of the cars produced in Turkey are currently designed domestically. In February 2011, the special consumption tax on motor vehicles was reduced from the ordinary rate of 37% to 3-15% for comparable cars with electric engines to stimulate mass production of electric automobiles in Turkey.

(ii) Iron and steel

55. The iron and steel industry has been the backbone of industrialization in Turkey, commencing with the production of raw steel in Karabük in 1940. The sector currently employs around 200,000 people. The industry is now operated entirely by the private sector. The privatization process, which began with the transfer of the loss-making Karabük Steel Mill (Kardemir) in 1994, culminated with the privatization of the Erdemir Group in 2006.⁴⁸

56. Accounting for just over 2% of global production, Turkey is the 10th largest producer of crude steel.⁴⁹ Production capacity more than doubled from 2002 to 2010, and annual production rose from 16.5 million tonnes to 29.1 million tonnes.⁵⁰ According to the Turkish Steel Manufacturers' Association DÇÜD, annual output is projected to reach 42 million tonnes in 2012. The Turkish industry's output consists of long steel (75%) and flat steel products (25%). Turkey is a major importer of scrap iron, and 72% of its steel production is currently made from recycled materials. Turkey imported iron and steel worth US\$6.5 billion in 2009 (pipes not included); imports of scrap iron amounted to US\$7.1 billion in 2010.

57. Exports from Turkey of iron and steel, including steel products, exceeded US\$13 billion in 2010.⁵¹ Turkey's principal export markets for iron and steel are located in the EU, the Middle East and in North Africa. Although the Turkish steel industry produces most types of steel, the dominant output is lower value-added long steel used in construction. Turkish producers meet 38% of the world's demand for long products.⁵² On the other hand, the needs for flat steel by Turkish manufacturers of motor vehicles, household appliances, and consumer electronics are mostly met through imports. Accordingly, the Turkish steel industry is channelling its investments into modernization and adding new capacity for flat steel to reduce the imbalance between the local production and consumption of long and flat steel.

⁴⁸ Erdemir is Turkey's largest producer of steel with 26% of total output. The group is now owned by Ataer Holding, a subsidiary of the Armed Forces Pension Fund (Oyak).

⁴⁹ Over the last ten years, the growth in Turkey's steel production has been surpassed only by China and India.

⁵⁰ Driven by the construction boom, domestic consumption of finished steel rose almost three-fold over the same period to reach 23.6 million tonnes in 2010.

⁵¹ In volume terms, Turkey's exports amounted to 17.6 million tonnes of iron and steel.

⁵² According to data from the Turkish Steel Manufacturers' Association, Turkey produced 19.7 million tonnes of long steel products in 2010, of which 11.6 million tonnes were consumed domestically and 8.1 million tonnes were exported.

(iii) Textiles and clothing

58. Since the elimination of quotas under the Agreement on Textiles and Clothing at the end of 2004, Turkey's industry has been facing increasing competition from low-cost producers in Asia, both at home and in its major export markets (EU, the United States and the Russian Federation). Turkey's textiles and clothing sector is dominated by privately owned small and medium-sized businesses. Turkey has more than 40,000 textile and clothing manufacturers producing for export. The industry has responded to the competitive challenges by switching to higher value-added finished products and ready-made clothing, necessitating product innovation as well as brand-building. In Europe, Turkish exporters continue to capitalize on duty-free access and logistical advantages stemming from geographical proximity to their customers.

59. The textiles and clothing sector still accounts for nearly 10% of Turkey's GDP and more than 11% of the manufacturing labour force. Traditionally relying on an ample supply of local cotton, the industry has become increasingly dependent on imported cotton as domestic production has been in decline since the 2004-05 marketing year. However, the focus on value added has also implied a shift away from basic cotton products. According to the Turkish industry, its main challenges at present stem from high cotton prices caused by short supply and protective trade measures applied by cotton producing countries, high electricity prices by international standards, and rising wage costs.⁵³

60. Initiatives taken by the industry include establishing a textile research and development centre in Istanbul, the Istanbul Fashion Academy, organizing the Istanbul Fashion Week, and using stylist and designer competitions to stimulate new talent. Many textiles and clothing companies have trademarked their own brands, and sought IPR protection for special designs. World-famous branded goods are also produced for export in Turkey under licence from the foreign right holders.

61. In 2010, Turkey ranked 5th among the world's exporters of apparel and 8th among the exporter of textiles. Turkey is the second-largest supplier to the EU market, which accounts for 80% of Turkey's exports of clothing. In textiles, the principal export markets are the Russian Federation, Italy, Germany, Romania, and the United States.

62. As shown in Table AIII.1, the textiles and clothing sector is subject to higher tariff protection than most other industrial activities. Anti-dumping measures also affect the importation of yarn and textile fabrics (Table III.11). In response to complaints from domestic producers, an investigation was launched on 13 January 2011 regarding a possible increase in import duties on a broad range of textile and clothing accessories. On 15 September 2011, Turkey began applying additional rates of duty ranging from 11% to 20% on textiles and 17% to 30% on clothing products within fixed *ad valorem* limits expressed in US\$/kg depending on the origin (LDCs, developing, or other countries). Turkey does not have bound tariff rates for most of the products subject to the additional duties. However, for goods with bound tariff rates, the duty increases are capped by the bound level. The additional import duties are applied to all countries, except the European Union and Turkey's free-trade partners. For goods shipped from third countries, Turkey takes into account their preferential origin under its GSP scheme.

(4) SERVICES

63. Although agriculture and manufacturing remain important, Turkey has become an economy dominated by services. In terms of number of people employed, and excluding governmental services, the main sectors are wholesale and retail trade; transport, storage, and communication; real

⁵³ According to the Turkish authorities, Turkey is now striving to increase its cotton production and attain a sustainable level of domestic production regardless of global prices and other exogenous factors.

estate, renting, and business activities; construction; architecture; engineering; and hotels and restaurants. The highest value added (per employee) is in electricity, gas, and water supply. The evolution of Turkey's foreign trade in services over the last five years is detailed in Tables IV.1 and IV.2.

Table IV.1
Exports of commercial services, 2006-10
(US\$ million at current prices)

	2006	2007	2008	2009	2010
Commercial services (excluding government services)	25,275	28,624	34,783	33,195	33,878
Transportation	4,972	6,541	7,793	7,825	9,026
Sea transport	418	747	843	661	1,213
Air transport	3,395	4,401	5,196	5,361	6,018
Other transport (road transport)	1,159	1,393	1,754	1,803	1,795
Travel	16,853	18,487	21,951	21,250	20,807
Business travel	1,885	1,820	2,837	2,732	2,673
Personal travel	14,968	16,667	19,114	18,518	18,134
Other commercial services (commercial services - travel & transport)	3,450	3,596	5,039	4,120	4,045
Communications services	416	506	725	633	463
Construction (abroad)	936	856	1,146	1,279	1,120
Insurance services	522	645	752	676	719
Financial services	277	395	841	464	482
Computer and information services	12	15	13	12	16
Royalties and licence fees
Other business services	289	208	338	282	333
Personal, cultural and recreational services	998	971	1,224	774	912

.. Not available.

Source: IMF BOP statistics.

Table IV.2
Imports of commercial services, 2006-10
(US\$ million at current prices)

	2006	2007	2008	2009	2010
Commercial services (excluding government services)	10,800	14,608	16,694	15,600	18,309
Transportation	4,662	6,966	7,984	6,535	8,291
Sea transport	2,571	4,640	5,444	3,824	4,994
Air transport	1,853	2,054	2,242	2,353	2,833
Other transport	238	272	298	358	464
of which Road transport	201	237	261	333	420
Travel	2,743	3,260	3,506	4,147	4,826
Business travel	1,020	1,207	1,300	1,539	1,789
Personal travel	1,723	2,053	2,206	2,608	3,037
Other commercial services (commercial services - travel & transport)	3,395	4,382	5,204	4,918	5,192
Communications services	299	305	298	247	246
Construction (abroad)	57	97	172	189	261
Insurance services	1,140	1,544	1,436	1,203	1,188
Financial services	524	623	978	826	724
Computer and information services	15	26	32	30	38
Royalties and license fees	531	647	729	648	816
Other business services	723	1,029	1,378	1,568	1,673
Personal, cultural and recreational services	106	111	181	207	246

Source: IMF BOP statistics.

64. Services are not covered by the customs union agreement between Turkey and the EU. However, in the context of Turkey's accession negotiations, work has been initiated on alignment with the EU *acquis* on the right of establishment and freedom to provide cross-border services. The process will require Turkey's alignment with the EU Directive on Services in the Internal Market, including the establishment of a Point of Single Contact and competent authorities. Turkey will need to amend some of its nationality and language requirements, and extend the scope for mutual recognition of professional qualifications. Moreover, Turkey's current requirements for the granting of work and residence permits to service providers established in EU member states are not compatible with the EU *acquis*.

(i) Banking

65. Turkey has 48 banks, including 31 deposit banks, 13 development and investment banks, and 4 (Islamic) participation banks (as at September 2011). Nine of these banks are state-owned, and 23 are wholly owned by foreign banks, branches of foreign banks, or have majority stakes held by non-resident investors.⁵⁴ At the end of June 2011, the assets of the Turkish banking sector totalled TL 1,146 billion, or the equivalent of 95% of Turkey's GDP. The four largest banks are similar in size as their balance sheets each represent 10-14% of the sector's total assets.

66. Except for underwriting services, which may only be provided by development and investment banks, Turkish banks are universal banks. Most insurance and leasing companies are either owned by, or affiliated with, the banks. Banks may engage in equity intermediation through their subsidiaries. Foreign and domestic banks are subject to the same rules in terms of establishment, operation, and supervision. Cross-border supply of banking services is not legally restricted. The Turkish banking sector owned 38 financial subsidiaries, 78 branches, and 11 representation offices abroad as of December 2011.

67. At the peak of its crisis, in November 2000 and February 2001, Turkey had a fragile banking system vulnerable to reversals in capital flows and a rising stock of non-performing loans.⁵⁵ Although action had been taken prior to the twin crisis, further measures were considered necessary. The economic reform programme launched in May 2001 included measures specifically directed at the banking system, notably enhancing the powers of the Banking Regulation and Supervision Authority (BRSA), the strengthening of private banks, and restructuring of state-owned banks with the aim of privatization.⁵⁶ The Savings Deposit Insurance Fund (SDIF) was given a key role in the protection of public rights and the management and disposal of assets of banks entering into administration or liquidation procedures (Box IV.1). The overhaul of the Turkish banking system, including the restructuring of public banks, is estimated to have cost the Government some US\$53.6 billion.

⁵⁴ Foreign banks have 41 representative offices in Turkey (as at September 2011).

⁵⁵ The banks' vulnerability was enhanced by a high public sector borrowing requirement, reliant on continuing demand for government securities, and rising interest rates under the Government's crawling-peg disinflation programme.

⁵⁶ The BRSA was established pursuant to the Banks Act No. 4389 in June 1999 and began operations in August 2000.

Box IV.1: Turkey's Savings Deposit Insurance Fund

Established in 1983 to ensure deposits, and granted an additional role to strengthen and restructure banks (in 1994), the SDIF originally reported to the Central Bank of Turkey. The Banking Law adopted in 1999 transferred the representation and administration of the SDIF to the newly founded BRSA. The SDIF became a separate legal entity in 2003.

In all, 25 banks were taken over by the SDIF between 1994 and 2003. The banks were resolved through merger, sale, or direct liquidation. Among the 25 banks, 6 were under direct liquidation, 4 were sold directly, 6 were disposed of through mergers, 1 was merged with a public bank, and 8 were transferred to the "Joint Fund Bank Inc.", which is limited to operations directly related to asset liquidation as a "transition bank".

The average settlement process for the banks taken over by the SDIF was 14 months, except for the 6 banks in the process of liquidation and the Joint Fund Bank Inc. The losses of the banks transferred to the SDIF totalled US\$23.2 billion, and the resources transferred to the banks by the SDIF amounted to US\$30.2 billion, including nearly US\$6.6 billion in depositor compensation following the collapse of a major bank in 2003. The balance sheet of the Joint Fund Bank Inc. has been scaled down significantly since 2006. At the end of 2009, the bank's loan portfolio had been reduced to TL 193 million, including TL 61 million in non-performing loans. As of the end of 2010, the SDIF had collected US\$19.7 billion from the resolved banks.

The SDIF guarantees deposits up to TL 50,000 per customer (per bank) in lira, foreign currency or gold. Membership in the scheme is compulsory for all banks accepting deposits in Turkey. The SDIF is funded by a risk-based premium collected quarterly from the participating banks. If necessary, the SDIF may also borrow government securities from the Treasury, receive advances from the Central Bank, or collect insurance premiums in advance. At the end of 2010, the 36 member banks held deposits totalling US\$401.5 billion, of which US\$99.5 billion was insured. The SDIF reserve amounted to US\$5.4 billion.

Source: BRSA (2010), *From Crisis to Financial Stability Turkey Experience*, Working Paper (Revised Third edition), 3 September. Viewed at: http://www.bddk.org.tr/WebSitesi/english/Reports/Working_Papers/8675from_crisis_to_financial_stability_turkey_experience_3rd_ed.pdf; and the SDIF.

68. The global financial crisis in 2008-09 led to a surge in non-performing loans in the Turkish banking sector, but no intervention was needed to rescue individual banks.⁵⁷ At the end of September 2011, the deposit, development and investment banks had non-performing loans totalling TL 17.3 billion, representing 2.8% of their total loans.⁵⁸ At the same time, the banks had made specific provisions against loan losses totalling more than TL 14.2 billion. The Turkish banking system reported an average return on equity of 18.1% in 2009, 16.4% in 2010, and 13.9% as of September 2011. Only two banks recorded losses for the year 2010.

69. The numbers of bank branches/offices and staff have been rising since 2003, reaching more than 10,000 branches/offices and 190,000 employees in September 2011.⁵⁹ Among the 7.8 million active users of internet banking services (as of September 2011), 90% are individual users and 10% are corporate customers. Almost 78 million debit and 50 million credit cards have been issued (end-September 2011).

⁵⁷ The guarantee of deposits was unlimited between 1994 and 2000, and the unlimited coverage was reintroduced during the crisis in 2001. The present guaranteed amount (TL 50,000) has remained unchanged since 2003. However, as a precautionary step, authority to determine the coverage and amount was transferred from the SDIF to the Council of Ministers in November 2008 for a period of two years. Temporary relaxed rules on loan provisioning and restructuring were ended on 1 March 2011.

⁵⁸ Including participation banks, the ratio of non-performing loans to total loans in the Turkish banking sector amounted to 3.6% in 2008, 5.2% in 2009, and 3.5% in 2010. The rise in defaults and the subsequent recovery was particularly marked for credit cards and car loans.

⁵⁹ The closure and restructuring of Turkish banks in response to the earlier crisis had a profound effect on employment in the banking system, which fell from 175,000 in 2000 to 126,000 in 2002.

70. The banking sector is regulated pursuant to Banking Law No. 5411, which entered into force on 1 November 2005, and Law No. 5464 on Bank Cards and Credit Cards. The banking legislation was introduced and amended to align with the EU *acquis* and to improve the administrative capacity for the effective implementation of new regulations. The BRSA has issued secondary legislation, such as regulations on the establishment and operation of banks, corporate governance, protective provisions, financial reporting, and non-bank financial institutions, as well as communiqués on capital adequacy, financial reporting, and the operation of branches of foreign banks established outside of Turkey.

71. The BRSA became a member of the Basel Committee on Banking Supervision in May 2009, and of the Islamic Financial Services Board in December 2010. Turkey is also a member of the Financial Stability Board. The BRSA has begun implementation of the Basel II rules, requesting banks to use these standards for reporting and review purposes during a transition period from 1 July 2011 until 30 June 2012. However, the Basel II rules are not used to sanction non-compliance at this stage.

72. A project to make Istanbul a regional and global financial centre was launched in 2009. The centre would be fully integrated in Turkey's legislation and tax system. The plan calls for upgrading Turkey's legal system, increasing the diversity of financial products and services, a simple and more effective tax system, an improved regulatory and supervisory framework, and a stronger physical and technological infrastructure. Nine working groups have been established pursuant to the Strategy and Action Plan.⁶⁰ In response to these plans, banks located in Ankara have begun the process of moving their headquarters to Istanbul.

(ii) Telecommunications

73. The Electronic Communications Law No. 5809, which entered into force on 10 November 2008, provides the legal basis for the current regulatory framework for telecommunication services in Turkey.⁶¹ The Act updated Turkey's legislation in this area and brought it closer to the EU *acquis*, i.e. Directive 2002/21/EC of 7 March 2002 and the specific directives relating to access, authorization, universal service, and privacy.⁶² The Law designates the Ministry of Transport, Maritime and Communications and the Information and Communication Technologies Authority (ICTA) as the competent authorities in this sector.⁶³

74. The role of the Ministry is primarily to develop the general policy with respect to electronic communication services and to maintain an alternative communications network in case of emergency or natural disaster. The ICTA (formerly the Telecommunications Authority) has been given a wide range of responsibilities spanning from granting authorizations, supervision, and the elaboration of secondary legislation on issues such as spectrum management, access and interconnection, numbering, number portability, tariffs, and consumer protection.

⁶⁰ See State Planning Organization (2009).

⁶¹ The Law replaced the legal framework based on Telegram and Telephone Law No. 406 of 21 February 1924, except for the provisions relating to authorization, which entered into force on 10 May 2009. Law No. 5369 on universal services in electronic communication (of 2005) remains in force, as does Wireless Law No. 2813, although the title of the latter is now the Law on Establishment of ICTA.

⁶² According to the European Commission, the Law is not fully aligned with the EU *acquis*, notably with respect to definitions and scope, authorization, universal service obligations, retail tariff regulation, spectrum management, access and interconnection, and market analysis (EU, 2011).

⁶³ The ICTA is a member of the Independent Regulators Group (IRG) and participates in Body of European Regulators for Electronic Communications (BEREC) as an observer.

75. Suppliers of electronic communications services require authorization from the ICTA. If the service does not require allocation of scarce resources (such as frequency or satellite slots), the service is considered authorized upon notification to the ICTA. When allocation of resources is required, the ICTA may grant a right of usage valid for up to 25 years. Unless the number of rights has been limited, e.g. for reasons of efficiency, rights of usage are granted within 30 days from the date of application. In addition to an annual administrative fee, the Council of Ministers sets minimum right of usage fees based on proposals by the Ministry of Transport, Maritime and Communications taking into account suggestions from the ICTA.

76. The pricing of electronic communication services is, in principle, determined by the operators themselves.⁶⁴ However, the ICTA may intervene in the tariff setting of enterprises deemed to possess significant power in the relevant market.⁶⁵ Further to its supervisory functions, the ICTA may impose monetary fines on enterprises found to be in breach of the legislation or the terms of its authorization or usage rights. ICTA may also obligate an operator to accept requests from other operators for access or interconnection with its network. As the powers of the ICTA and the Competition Authority overlap in the telecommunications sector, the Law aims at establishing a cooperative relationship between the two agencies. To enhance their coordination, the ICTA and the Competition Authority signed a protocol on 2 November 2011 to increase the exchange of information, mutual cooperation, and collaboration between the agencies' experts.

77. As at 31 October 2011, 558 authorizations have been granted to operators in the electronic communications market in Turkey.⁶⁶ Since the abolition of Türk Telekom's monopoly rights on fixed line, domestic long-distance, and international telephony on 31 December 2003, 166 authorizations have been issued for fixed telephony services. Nevertheless, the incumbent Türk Telekom continues to dominate the market for fixed-line telephony, holding a 90-93% market share (measured by revenue) in mid-2011. However, the number of fixed-line subscribers has been in steady decline over the years and currently totals around 15.5 million.

78. Introduced in 1986, mobile telephony now dominates over fixed-line calls and accounts for roughly 84% of the total traffic.⁶⁷ The nearly 64.8 million mobile subscriptions in Turkey are divided among three operators; Turkcell (34 million), Vodafone (17.8 million), and Avea (12.5 million).⁶⁸ After a long period of uninterrupted growth, the number of mobile subscriptions decreased by nearly 10% from 2008 to early 2011. The decline has been attributed to the introduction of number portability and flat-rate tariffs, leading to the cancellation of second mobile subscriptions. At the

⁶⁴ In addition to value-added tax, all types of installation, transfer, and telecommunication services provided by mobile telephone operators are subject to a Special Communication Tax. The tax rate is 5% for fixed-line and mobile internet services, 25% for other mobile communications services, and 15% for other fixed-line communications services.

⁶⁵ More generally, the Law also contains provisions regulating subscription contracts, i.e. minimum content, equal access to services, quality and transparency, and other consumer rights. The ICTA has issued further regulations with respect to customer rights and the quality of services.

⁶⁶ The number of service providers may be lower as some services may not yet have been launched.

⁶⁷ Mobile calls rose from 20.3 billion minutes in 2004 to 125.8 billion minutes in 2010. Fixed-line calls declined from 65.2 to 23.6 billion minutes during the same period.

⁶⁸ Shares in Turkcell were floated in an initial public offering in 2000. Its principal shareholder at present is Turkcell Holding (51%), whilst 33.48% of the shares are tradeable on the stock exchange. Vodafone Group Plc acquired the mobile operator Telsim for US\$4.5 billion at a public auction in 2005. Avea is owned by Türk Telekom (81.13%) and Türkiye İş Bankası (14.03%). In 2005, the Turkish Government sold 55% of Türk Telekom to a consortium (Ojer Telekomünikasyon AS) at a public auction for US\$6.55 billion. The Government shed another 15% of Türk Telekom in a public offering to local and foreign investors in 2008, raising an additional US\$1.9 billion (see Chapter III(3)(viii)).

same time, the operators have also seen a shift from pre-paid subscriptions to more lucrative post-paid tariff schemes.

79. Turkey had approximately 28 million internet users at the end of 2010, corresponding to some 9 million internet subscriptions, primarily in the form of fixed-line (xDSL), mobile broadband, and cable modem or fibre internet access. As of November 2011, the ICTA had authorized 141 internet service providers by notification. At end-June 2011, TTNNet (the fixed-line incumbent's subsidiary) held a 55.6% share of all broadband internet subscriptions, including all types of broadband internet subscriptions via fixed-line, mobile, cable, fibre or other types of access. However, competition is intensifying as mobile operators are offering mobile broadband services. 3G services were launched in July 2009, and 30.8 million mobile subscribers are 3G users.

80. Türk Telekom and the three mobile operators generated net sales worth TL 21.2 billion in 2010. The revenue of the other operators amounted to nearly TL 1.1 billion, including the combined income of smaller internet providers of TL 754 million. Since 2006, Türk Telekom and Turkcell have each generated net profits in the order of TL 2-3 billion annually, while Vodafone and Avea are still operating at a loss. In terms of employment, two thirds of the 38,000 people working in the sector are employed by Türk Telekom, against 7,500 in the mobile operators, and 4,600 in other communication operators.

(iii) Transport

81. Turkey's transport policy falls within the scope of the Ministry of Transport, Maritime and Communications. The Ministry carries out transport infrastructure operations and regulation of all modes of transport as well as the communications sector. The Directorate General of Coastal Safety, the General Directorate of State Airports Authority, the Turkish State Railways, and the General Directorate of Post and Telegraph Organization are related bodies of the Ministry; and the Information and Communication Technologies Authority and TURKSAT A.S. are affiliated bodies. Under the Ninth Development Plan (2007-2013), Turkey aims, *inter alia*, to create an efficient transport subsector, giving priority to environmental aspects; and to increase traffic safety in all modes of transport.

(a) Maritime transport

82. Surrounded by sea on three sides, and with four of its major industrial centres (Istanbul-Izmit, Izmir, Bursa, and Adana) located on or near the sea, it is not surprising that approximately 85% of Turkey's foreign trade is carried by maritime transport. The volume of seaborne trade rose steadily between 2001 and 2008, to reach almost 225 million tonnes, but declined in 2009 due to a fall in import shipments of 12 million tonnes. Turkish ports unloaded an additional 58 million tonnes of transit cargo in 2009, and a further 18 million tonnes of merchandise was shipped between Turkish ports that year.⁶⁹

83. Maritime activities are administered pursuant 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. Turkey has a two-register system; the Turkish National Ship Registry and the Turkish International Ship Registry. At the end of 2010, the Turkish merchant fleet registered in Turkey consisted of 701 ships (1,000 gross tonnes and over) with a total capacity of 8.6 million deadweight tonnes (dwt). In tonnage terms, more than 90% of this fleet is registered in the Turkish International Ship Registry. However, including Turkish-owned

⁶⁹ In 2010, Turkish ports handled 247 million tonnes of cargo, including 64 million tonnes of transit cargo.

ships bearing flags of convenience (e.g. Malta, the Marshall Islands, Panama), the Turkish-owned merchant fleet totals over 2,500 ships with a combined capacity of almost 19 million dwt.

84. The National Ship Register is reserved for vessels owned by Turkish citizens and companies majority-owned (51% or more) by Turkish nationals. First mates and masters of ships must be of Turkish nationality, but up to 40% of the officers of ships engaged in international seaborne transportation (i.e. excluding cabotage) may be foreign nationals. Turkey's International Ship Register, established in 1999, is also open to ships and yachts owned by foreign persons resident in Turkey and foreign-owned companies incorporated pursuant to Turkish legislation. In addition to the special tax incentives offered through the international register, flying the Turkish flag allows the vessels to perform cabotage operations in Turkish waters and a 10% price preference in bidding for the transport of public cargoes or strategic raw materials.⁷⁰ Nevertheless, almost 80% of Turkey's seaborne foreign trade is performed by vessels registered elsewhere in the world.

85. In order to deal with congestion and inefficiencies at Turkish ports, the operational rights of 13 public ports operated by the General Directorate of the Turkish Maritime Organization were privatized several years ago. Turkey has also established 36-year concessions for three of its major ports operated until recently by the Turkish State Railways (TCDD); Mersin (in 2007), Samsun (2010), and Bandirma (2010). The privatization process of other ports owned by the TCDD (i.e. Derince, Iskenderun, Galataport, Izmir) is on-going. In addition, a major port is under construction at Çandarlı, and is expected to handle its first cargo in 2013. Plans to build a 50-km canal west of Istanbul to alleviate traffic through the Bosphorus straight are still at an early stage.

86. At the end of 2009, Turkey had 65 shipyards and a further 60 shipyards were under construction. The main shipyards are located in Tuzla and Yalova (east of Istanbul). Turkey's shipyards were operating at less than 50% capacity during the recent crisis, and employment in the industry fell from 33,500 in August 2008 to 8,000 in January 2010. However, the industry began to recover in 2011. Turkey also has a thriving boat-building industry, producing a full range of boats from skiffs to large (90 m+) yachts. Turkey exported ships and yachts worth US\$1.1 billion in 2010.

(b) Road transport

87. The Ministry of Transport, Maritime and Communications regulates road transport in Turkey, including road-safety issues and the conditions applied to cargo operators, carrier agents, brokers, and warehouses.⁷¹ Moreover, the Ministry establishes the qualifications, rights and duties of persons employed in the sector. Road transport services are provided by private companies; an operating licence issued by the Ministry is obligatory. Cross-border transportation of goods and passengers is subject to bilateral or multilateral agreements or permits issued by the Council of Ministers. Vehicles registered in a foreign country may not transport goods or passengers between two points within Turkey. Turkey's road transport fleet (45,000 vehicles) is among the largest and most modern in Europe. According to the authorities, transit quota limitations applied by partner countries continue to prevent the efficient use of Turkish trucks.

88. The General Directorate of Highways is responsible for the construction, maintenance, and operation of roads. The road network of the General Directorate of Highways consists of 2,236 km of motorways, 31,383 km of state roads, and 31,459 km of provincial roads. The General Directorate

⁷⁰ Pursuant to the Cabotage Law, merchant maritime transport and passenger services, pilotage, and all other port services may only be provided by Turkish-flag ships. For further details regarding the incentives and privileges, see WTO (2003) and WTO (2007).

⁷¹ Turkey became a party to the European Agreement on the international carriage of dangerous goods by road (ADR) on 22 February 2010. A regulation on transport of dangerous goods has entered into force.

also administers Turkey's toll plazas, collecting tolls manually or automatically on a number of roads and bridges. Road transport is the preferred mode of domestic transport, accounting for more than 90% of the volume of both freight and passengers.⁷²

89. The General Directorate began a programme in 2003 to upgrade highways in Turkey from single to dual carriageway. At present, 33% of the Turkish road network is dual carriageway. Several major projects have been launched recently to upgrade the road infrastructure further, including a 420-km highway linking Istanbul and Izmir, the North Marmara Motorway Project (including a third suspension bridge across the Istanbul strait), as well as a tunnel under the Bosphorus. Private entrepreneurs are invited to tender for the projects, to be constructed on a build-operate-transfer (BOT) basis. Planned motorway projects until 2023 total 5,550 km. The intention is to finance many of these projects through private-public partnerships.

(c) Rail transport

90. The Turkish State Railways (TCDD) has a *de jure* monopoly in providing rail passenger and freight transport services in Turkey. The TCDD owns and operates the entire railway system. The reorganization and restructuring of the loss-making TCDD has been a key area of reform under the Ninth Development Plan (2007-2013). As noted above, the management of several ports owned by TCDD have been turned into concession agreements with private operators, and other ports are in the process of privatization.

91. Turkey's railway system consists of 11,940 km of track. Major investments have been undertaken in recent years to build high-speed lines between some of Turkey's major cities. The high-speed lines linking Ankara with Eskisehir and Konya have opened, and further projects are either under construction or on the agenda. The Turkish railway system is connected to the networks of neighbouring countries via seven border crossings. Completion of the Marmaray Project, a 76-km commuter railway and sub-sea rail tube crossing of the Bosphorus straight, would allow Turkey to connect to the Trans-European Transport Network and potentially become a hub for railway freight between Europe, Central Asia, and the Middle East.

92. Although ambitious targets have been set for 2023, the contribution of Turkish railways in the transportation of passengers and freight is still modest.⁷³ Continuing investments in infrastructure and new rolling stock is designed to make rail travel and rail cargo more attractive. Turkey is also planning to open the sector to competition, although the infrastructure would remain state-owned. Draft legislation to reform the railway sector is currently before the Ministry of Transport, Maritime and Communications.

(d) Air transport

93. The national flag-carrier Turkish Airlines, 49% state-owned, continues to dominate Turkey's air transport sector. As of September 2011, Turkish Airlines controlled a fleet of 177 aircraft, including six freight planes operated by its subsidiary Turkish Cargo. Turkish Airlines formally joined the global Star Alliance in April 2008. Private air carriers have been allowed to establish since 1983. In addition to Turkish Airlines, Turkey currently has 19 air carriers, 4 of which (Onur Air, Pegasus Airlines, SunExpress, and AnadoluJet) operate a fleet of 20 aircraft or more. Low-cost carriers have gradually been increasing their presence in Turkey.

⁷² The share of road transport in the carriage of Turkey's foreign trade has been around 10-12% in recent years.

⁷³ The share of rail transport in total transport is about 5% for freight and 2% for passengers. Only around 1% of Turkey's foreign trade is carried by rail.

94. Turkey has a total of 67 airports, 47 of these are civil airports, of which 35 are open to international flights. Several new regional airports are under construction. The General Directorate of State Airports Authority (DHMI) is in charge of airport management and the provision of air navigation services throughout Turkey's airspace. However, private enterprises have been granted concessions to run the terminal operations at some of Turkey's busiest airports (i.e. the Istanbul Atatürk Airport, Antalya, Esenboga (Ankara), Izmir Adnan Menderes, and Dalaman).

95. Airport access is regulated by the Turkish Civil Aviation Authority pursuant to the General and Aerodrome sections of the *Turkish Aeronautical Information Publication*, while slot allocation has been the responsibility of the DHMI since May 2010. Air carriers operating scheduled flights to Turkey are authorized on the basis of reciprocity within the framework of bilateral aviation agreements. Charter services are authorized on the basis of reciprocity under the rules of the European Civil Aviation Commission. Turkey has signed bilateral air transport agreements with 121 partners. Turkey concluded an Open Skies Air Transport Agreement with the United States in 2000. Since its last TPR, Turkey has concluded a bilateral air transport agreement with Canada (in 2009), and initialled a civil aviation agreement with the EU (25 March 2010). The new "horizontal" agreement does not replace existing bilateral agreements between Turkey and individual EU member states, but aligns them with EU law.⁷⁴

(iv) Tourism

96. Turkey is one of the world's major tourist destinations; it ranked 7th in international tourist arrivals (28.6 million) in 2010, and 10th in receipts from tourism (US\$20.8 billion). It is targeting revenue of US\$60 billion from 60 million tourist arrivals annually by 2023. Whereas Turkey was widely regarded as a low-cost destination in the early stages of the industry's development, it is increasingly focusing on the higher end of the market and all-year tourism. As the bulk of Turkey's visitors from the EU, the Russian Federation, and Ukraine choose Turkey for their summer holidays, much of the industry has a distinct seasonal character. Projects to extend the tourism season, particularly in the Antalya region, include investments in golf courses, health clinics, shopping, and entertainment facilities. Istanbul maintains its importance as an international hub throughout the year. As a cultural centre and congress venue, Istanbul hosted nearly 7 million foreign visitors in 2010, and is expecting to host some 8 million visitors in 2011.

97. Turkey is becoming a popular destination for health tourism. According to the Turkish Statistical Institute, 115,223 people visited Turkey for medical purposes in 2010. Since 2007, the Ministry of Culture and Tourism has been backing initiatives to promote Turkey's spas, thermal waters, and health centres. At present, Turkey has about 270 spas and thermal springs, and some 385 hotels offer spa and wellness facilities. However, as more than 1,300 thermal sources have been identified across Turkey, the thermal resources could cater to a much larger number of visitors. The Turkish Government is accordingly prepared to provide funding for the promotion and development of existing and new sites.

98. As Turkey has been the home of numerous civilizations in the past, the country has an estimated 20,000 monuments and sites of archaeological significance. The Anatolia region also includes many holy sites of early Christianity and Judaism; and religious and cultural tourism is being recognized as an area of significant potential. Funds have been made available for the restoration and preservation of some 150 historical assets across Turkey since 2007.

⁷⁴ Notably, due to the large Turkish population living in Germany, the air transport agreement between the two countries is a *de facto* open skies agreement.

99. Although a fairly new concept in Turkey, winter tourism is being regarded as a potentially profitable industry in the mountainous and less developed provinces of Eastern Turkey. Two existing ski resorts (Palandöken and Sarikamis) are popular among ski tourists from the Russian Federation and other CIS countries. However, as these parts of Turkey are sparsely populated, further development of winter tourism would not only require investment in ski lifts, ice rinks, snowboard ramps, toboggan trails, etc. but also in basic infrastructure such as airports, roads, and hotels. Mountaineering and adventure tourism is also being considered as complementary activities to extend the tourist season.

100. The Government provides a number of incentives for investments in tourist facilities, including the allocation of public land on 49-year leases, the provision of water and electricity at low rates, tax exemptions on imported goods, as well as exemptions from VAT and other taxes on purchases of local products. Many tourism projects are being contemplated as public-private-sector partnerships, constructed on a build-operate-transfer or similar basis.

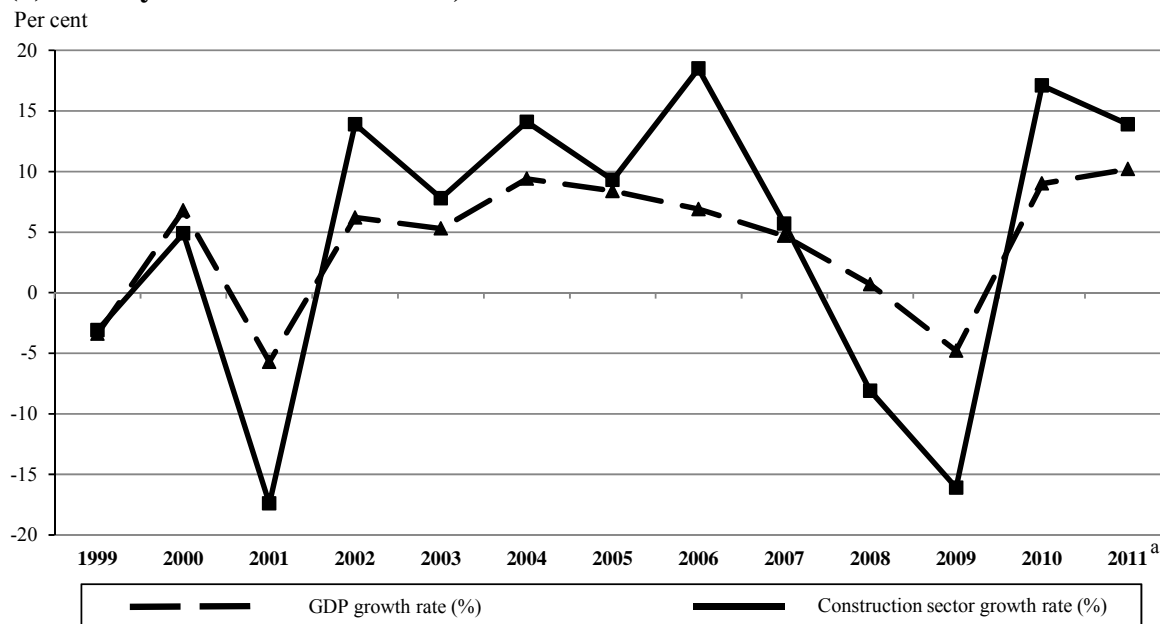
(v) Construction

101. The Turkish construction sector, originally domestically oriented and focused on the construction of residential property, began its development in the 1980s as major infrastructure projects were being undertaken in Turkey in joint-ventures with foreign constructors. At present, the industry provides employment for some 1.5 million people. The sector spans from a large number of small, mostly family-owned businesses to some 150 large contractors working internationally. The construction industry accounts for more than 5% of Turkey's GDP directly, but its indirect effects on the economy are thought to be significantly larger. Turkey is among the world's top 12 manufacturers of building materials, such as cement, glass, steel, and ceramic tiles.

102. Turkey has an estimated 200,000 contractors in the construction sector. No licence is required to operate a construction company in Turkey, except for construction licences granted by the Ministry of Environment and Urbanism for on-going construction projects subject to Law No. 2886; construction works of institutions not subject to Law No. 4743; construction procurements of municipalities in the form of building with flat compensation, and the construction works of private cooperatives. Pursuant to Regulation No. 27787 On the Registry of Building Contractors, Field Supervisors and Licensed Craftsmen, all contractors will need to obtain a competence number from 1 January 2012 onwards. The regulation also stipulates that all projects subject to a construction permit must be built under the responsibility of a building contractor. National building standards were tightened in the wake of the earthquake in 1999.

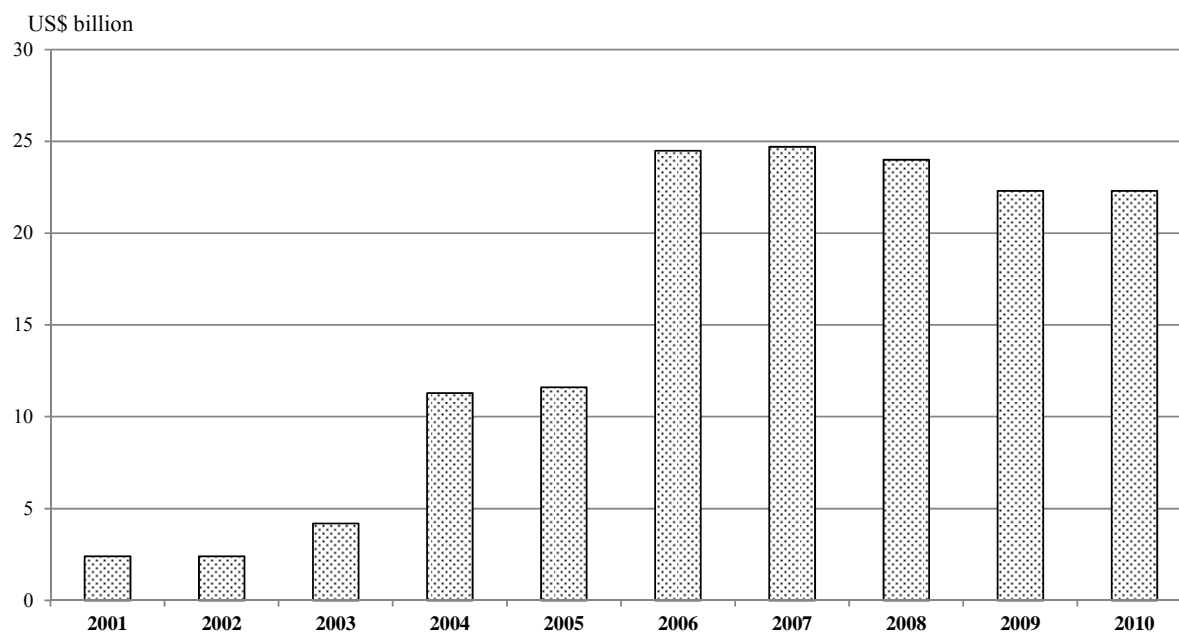
103. Domestically, the performance of the construction sector mirrors closely the path of the overall economy, but with much higher volatility (Chart IV.3). After the crisis in 2001, the sector benefited from a stable investment climate and reduced interest rates. The demand for housing was also stimulated by the availability of long-term financing on attractive terms.⁷⁵ The economic downturn in 2008-09 affected the sector severely, but the subsequent rebound has been similarly spectacular. In commercial real estate, a temporary oversupply of office and retail space in the Istanbul area appears to have disappeared rapidly with the renewed strength of the Turkish economy.

⁷⁵ The volume of housing loans provided by the banking sector rose from €400 million in 2003 to €18 billion in 2008. BRSA (2009). Turkish banks require minimum 25% equity put up by the homeowner in order to extend a mortgage loan (DEIK, 2011).

Chart IV.3**(a) Turkey's construction sector, 1999-2011**

^a First six months.

Source: Turkish Contractors Association online information. Viewed at: http://www.tmb.org.tr/doc/Turk_Yurtdisi_Muteahhitlik_Hizmetleri_en.doc.

(b) International activity of Turkish contractors, 2001-10**Annual project value**

Source: Turkish Contractors Association.

104. Outside of Turkey, Turkish contractors have undertaken about 6,500 projects for a total value of US\$205 billion over the last 40 years. The annual project volume has risen from US\$2.4 billion in 2001 and 2002 to exceed US\$22 billion every year since 2006. The internationally oriented segment of the Turkish construction industry has become increasingly diversified in terms of markets, products, and business models. In 2010, Turkish contractors undertook 577 projects in 50 countries, ranging from infrastructure projects (roads, bridges, tunnels), residential housing, sports facilities, energy projects, tourism establishments, etc. Geographically, the Russian Federation, Libya, Turkmenistan, Kazakhstan, and Iraq have been the leading markets, representing around 50% of the business volume.

105. According to the *Overseas Contracting Communication* (Communication No. TAU/2007/001), an "Overseas Contracting Certificate" valid for three years may be issued to overseas contractors within four categories: (i) civil engineering structures, plants, maintenance, and repair works; (ii) industrial and technological manufacturing, installation, and assembly works; (iii) operation, management, and maintenance works; and (iv) design, engineering, and consultancy works. A "Temporary Overseas Contracting Certificate", granted for a maximum of one year (but renewable under certain conditions), may be provided to natural and juridical persons who do not meet the value thresholds stipulated for such works, but who are aiming to complete their overseas construction commitments. Since 2003, contractors have been provided 330 overseas contracting certificates and 526 temporary certificates.

106. Some Turkish contractors have specialized in the construction of particular types of infrastructure such as international airports, railways, and urban transport systems.⁷⁶ Another trend has been a growing interest in direct investment and property management abroad among Turkish construction companies.

⁷⁶ The companies are being classified by affiliated chambers of the Union of Chambers and Commodity Exchanges of Turkey according to EU NACE codes.

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