IV. TRADE POLICIES BY SECTOR

(1) OVERVIEW

1. The imbalance in the policy treatment of the different sectors of the Turkish economy has increased since the previous Review, shifting resources to an even greater extent towards agriculture, where intervention has been extended and deepened. Little change has occurred in the services sector, where privatization has been very slow. By contrast, there has been considerable liberalization of the manufacturing sector, mainly as a result of implementation of the customs union with the EU.

2. Agriculture, which is excluded from the customs union, continues to be characterized by extensive and costly government interventions that insulate farmers from foreign competition and world market price signals. If anything, intervention has increased since Turkey's previous Review. In the case of meat and preparations of meat, and fish or aquatic invertebrates, tariff duties (including MHF levies) add as much as 130 and 90%, respectively, to import prices. Under some preferential trade agreements, Turkey has introduced tariff quotas to implement reduced preferential rates on limited imports of certain agricultural and processed agricultural products. Export incentives in the agricultural sector, re-introduced in 1997, cover, *inter alia*, cut flowers, dehydrated vegetables, fruit juices, olive oil and prepared or preserved fish.

3. The overall level of support to the agricultural sector has increased in recent years, although the year-to-year variations are considerable. The OECD estimates that total transfers to the agricultural sector (expressed in U.S. dollars) almost doubled between 1994 and 1997, reaching the equivalent of 7.5% of GDP in 1997.[1] Cereals (mainly wheat) and milk are among the most heavily supported products. Support price interventions and fertilizer subsidies continue to be a serious drain on state finances. In the Uruguay Round, tariffs were bound at statutory rates which were equal to or above the sum of the prevailing applied rate and MHF levies.

4. In contrast, the manufacturing sector has been opened to increased competition since Turkey's previous Review. Under the CUD Turkey eliminated tariffs and levies on manufactured imports from the EU on 1 January 1996 and adopted the EU common external tariff (CET) on imports from third countries. As a result, average tariffs, the main border measure, have more than halved since the previous Review to 12% in 1998. Moreover, the coverage of the Mass Housing Fund (MHF) levy has almost been eliminated, thus simplifying the calculation of taxes payable on imports and improving transparency. The opening of the Turkish market has been matched by improved access to foreign markets as a result of the Uruguay Round and the CUD. As an example, in 1995 about half of textile and clothing exports were subject to quota restrictions, while in 1996, after the elimination of quotas, this proportion was less than 7% (mainly restrictions in the U.S. market). However, Turkey's textiles and clothing industries are likely to face intensified competition from third countries in the future as quota restraints are phased out on an MFN basis under the WTO Agreement on Textiles and Clothing (ATC).

5. Although the CUD generally involves overall liberalization, Turkey was also required to adopt EU policy with respect to textiles and clothing, introducing quotas on some of these products on 1 January 1996 (now the subject of a dispute with India). Turkey also has a number of anti-dumping measures (independent of the EU), textile imports being the main target. In the automobile sector, foreign investors generally agree, without any legal obligation, to incorporate a certain share of local content.

[1] OECD (1998a).

6. The manufacturing sector is also the main beneficiary of a generous and complex state aid system and export assistance to domestic producers (see also Chapter III). Although less than the transfers to farmers, the cost of these schemes are still substantial, equivalent to some 2.3% of GDP (1994). In 1997, 63% of the incentives were granted to manufacturing investors, while services accounted for an other quarter. Textiles and clothing, followed by chemicals, were the main recipients, receiving more than one third and one tenth, respectively.

7. The services sector accounts for just under half of GDP and of export earnings (mainly tourism). Turkey is party to the WTO Agreements on Financial Services, Telecommunications and Information Technology, and in the Uruguay Round made specific commitments in almost half of scheduled activities. The State continues to play an important and sometimes dominant role in the services sector, through the SEEs and state banks, and, as noted in Chapter III, privatization has been slow and subject to legal challenge. This is a particular problem in the energy and transport sectors, where shortages have adversely affected other parts of the economy. In the banking sector, preferential lending in agriculture and housing accounts for more than half of loans by the state banks, while cross-ownership of private banks and industrial enterprises may also create problems for prudential supervision.

(2) AGRICULTURE

(i) Main Features

8. Agriculture plays an important but diminishing role in the Turkish economy: its share of GNP declined from 18% in 1990 to 14% in 1997, and its share of export revenues dropped from 25% to 21% over the same period. However, it continues to provide almost half of the employment opportunities. The crop sector accounts for more than three-quarters of agricultural production in Turkey, the most important products being cereals (mostly wheat), fruit and vegetables (Table IV.1). However, since 1990, the share of milk in agricultural production has also become important, almost doubling to 11.2%. While edible fruit and nuts (mainly hazelnuts and, to a lesser extent, grapes and citrus fruit) is the largest export category, cereals (mainly wheat and, to a lesser extent, maize and rice) is the largest import category (Chart IV.1).[2]

9. The agricultural sector benefits from extensive and costly government interventions. High tariffs constitute a significant barrier to imports, while support price interventions and fertilizer subsidies continue to be a serious drain on state finances. The OECD estimated value of total transfers (expressed in U.S. dollars) to agriculture resulting from agricultural policies almost doubled between 1994 and 1997. The producer subsidy equivalent (PSEs) of assistance to Turkey's main products show that milk and wheat are major beneficiaries (Table IV.1). The customs union decision (CUD) between Turkey and the EU is not expected to directly influence the price regime measures because Turkey is not participating in the EU common agricultural policy (CAP).

[2] Data presented in Chart IV.1 is based on the Uruguay Round definition of agriculture (HS 01-24 less fish and fishery products plus selected products) while trade data presented in Chapter I are based on the SITC classification.

Table IV.1
Production and producer subsidy equivalents by farm sector, 1996 and 1997
(TL billion and per cent)

	Production (1996)		Producer subsidy equivalents (1997)	
	(TL billion)	(% of total)	(TL billion)	(% of GNP)
Crops:	2,054,445	76.7	..	..
Cotton	106,403	4.0	..	..
Sugar beets	1,989	2.5	84,217[a]	0.3
Cereals	503,033	18.8	251,344[b]	0.9
Wheat	337,132	12.6	170,435	0.6
Maize	34,375	1.3	23,376	0.1
Oil seeds	39,812	1.5	29,025	0.1
Fruit	586,304	21.9	..	..
Vegetables	480,350	17.9	..	..
Fruit bearing	405,898	15.1	..	..
Animal products:	624,874	23.3	416,592[c]	1.4
Meat	155,397	5.8	152,827[d]	0.5
Sheep	36,835	1.4	39,501	0.1
Poultry	63,372	2.4	-12,763	0.0
Milk	299,551	11.2	212,443	0.7
Hen eggs	68,462	2.6	51,322[e]	0.2
Total	2,679,319	(100.0)	781,178	2.7

.. Not available.

a Sugar refined equivalent.
b Includes wheat, maize and other grains.
c Livestock products.
d Includes beef, veal, poultry and sheepmeat.
e Eggs in general.

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

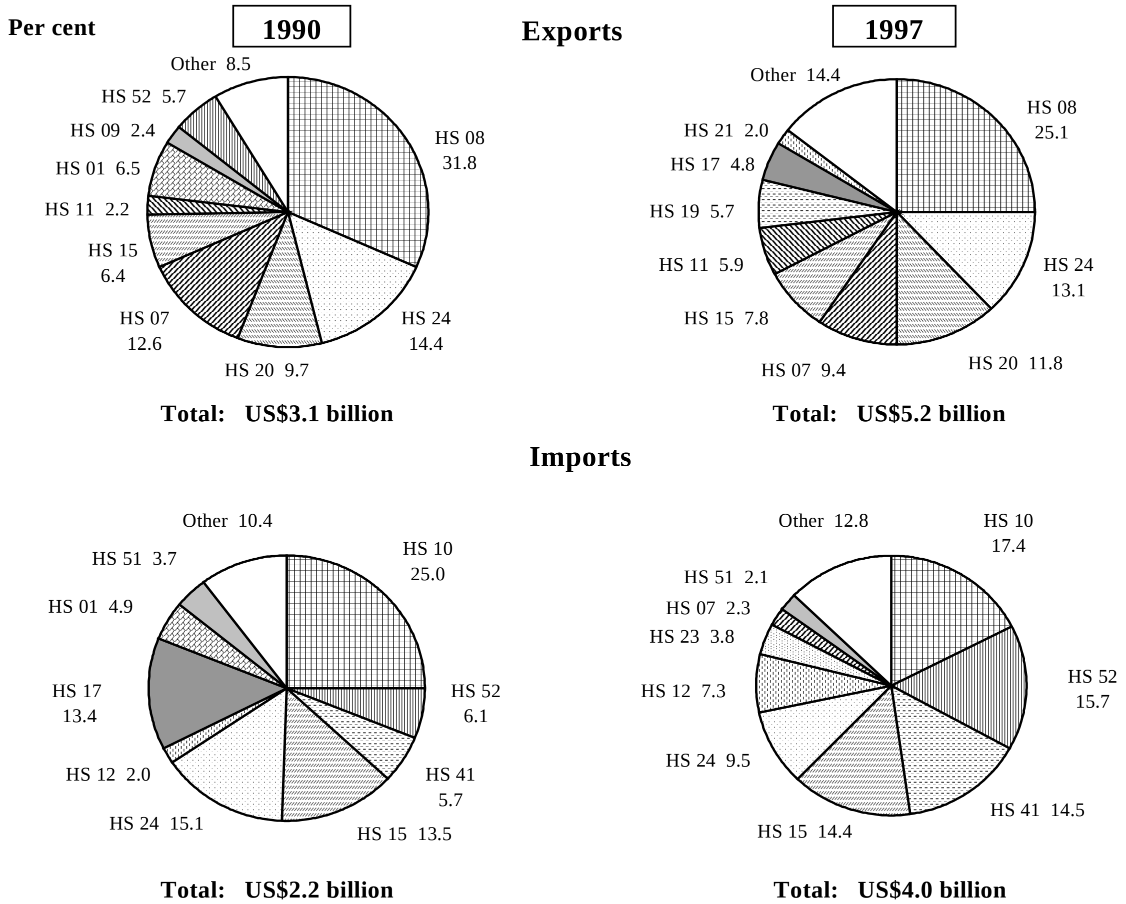
Source: WTO Secretariat based on date supplied by the Government of Turkey (production); and OECD (1998), Agricultural Policies in OECD Countries – Monitoring and Evaluation 1998, Paris (producer subsidy equivalents).

(ii) Policy instruments and indicators of assistance

10. Turkey has a wide range of policy objectives in the agriculture sector, including the stabilization of farmers income, meeting the nutritional needs of the population, ensuring an increase in output and exports by emphasizing those products in which Turkey has comparative advantage.[3] These objectives are to be achieved through a number of measures, including: (i) import tariffs, tariff quotas, SPS measures, export subsidies and export taxes; (ii) domestic price support schemes; (iii) subsidies for capital and operating costs of state economic enterprises (SEEs) responsible for the implementation of the price support programmes; (iv) input subsidies for fertilizers, pesticides and irrigation; (v) concessional credit (direct support to farmers or indirectly through the Agricultural Sales Co-operative Unions (ASCUs) or through SEEs); and (vi) livestock incentives.

[3] Government of Turkey (1995), p. 65.

Chart IV.1
Trade in agricultural products, 1990 and 1997



HS 01 - Live animals;
HS 07 - Edible vegetables and certain roots and tubers;
HS 08 - Edible fruit and nuts;
HS 09 - Coffee, tea, maté and spices;
HS 10 - Cereals;
HS 11 - Products of the milling industry; malt; starches; inulin; wheat gluten;
HS 12 - Oilseeds and oleaginous fruit, misc. grains, etc.;
HS 15 - Animal or vegetable fats and oils (excl. 1504);
HS 17 - Sugars and sugar confectionery;
HS 19 - Preparations of cereal, flour, starch/milk; pastrycooks' products;
HS 20 - Preparations of vegetables, fruit, nuts or other parts of plants;
HS 21 - Miscellaneous edible preparations;
HS 23 - Residues and waste from the food industries, prepared animal fodder (excl. 230120);
HS 24 - Tobacco and manufactured tobacco substitutes;
HS 41 - Raw hides and skins (other than furskins) and leather (4101-4103);
HS 51 - Wool, fine coarse animal hair, horsehair yarn and fabric (5101-5103);
HS 52 - Cotton (5201-5203).

Note: **Data based on HS definition of agriculture as agreed in the Uruguay Round.**

Source: **UNSD, Comtrade database.**

11. Most recent OECD estimates on transfers to the agricultural sector in Turkey indicate increased flows to the agricultural sector over the recent years (Table IV.2). The producer subsidy equivalents (PSEs), which capture the value of transfers to agriculture resulting from agricultural policies in a given year, almost doubled (in U.S. dollar terms) from 1994 to 1997, while the implicit tax on consumers as measured by the consumer subsidy equivalents (CSEs), capturing the value of money transfers to consumers resulting from agricultural policies in a given year, more than tripled over the same period.4 Some 80% of agricultural support is in the form of market price support, but input subsidies are also significant. Direct payments to farmers do not constitute a significant part of the PSE.5 The OECD estimates that total transfers associated with agricultural policies have increased from 6.0% of GDP in 1994 to 7.5% of GDP in 1997. Government interventions, by policy instrument, in the agricultural sector are described below.

Table IV.2
Transfers associated with agricultural policies, 1986-97

		1986-88	1994	1995[a]	1996[a]	1997[b]	Change 1996-97 (%)
PSE	TL trillion	2	57	154	257	781	204
	(US$ billion)	2	2	3	3	5	63
	(%)[c]	26	25	30	25	38	
CSE	TL trillion	-1	-36	-118	-201	-776	286
	(US$ billion)	-1	-1	-3	-2	-5	107
	(%)[d]	-18	-14	-20	-18	-34	
Total transfers[e]	TL trillion	6	232	506	867	2,177	151
	(US$ billion)	6	8	11	11	14	35
Memo:							
Total transfers/GDP	(%)	6.5	6.0	6.5	5.8	7.5	

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

Source: OECD (1997), Agricultural Policies in OECD Countries, Paris; OECD (1998), Agricultural Policies in OECD Countries, Paris; and Secretariat calculations (memo item).

12. In its Uruguay Round commitments, Turkey undertook to reduce its budgetary outlays for export subsidies for 46 products (at the HS four-digit level) by 24% and the volume of subsidized exports by 14% in equal instalments over a ten-year period starting in 1995. Turkey did not undertake any commitments to cut financial support for agricultural producers; the authorities estimated that their support - as measured by the Aggregate Measurement of Support (AMS) - was below the de minimis level of 10% for which no reduction commitments were required.[6] Within the WTO, members have raised questions concerning Turkey's method of calculating domestic support; while Turkey's most recent WTO notification on domestic support commitments is expressed in

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

[5] OECD (1998a).

[6] The main difference between the AMS and the PSE is that price differences in the AMS calculations are estimated by reference to domestic administered prices and not actual producer prices. Moreover, the AMS fixes the external reference prices at the average levels of the 1986-1988 base period, and several budgetary transfers that are included in the PSE are not included in the AMS (OECD, 1997b).

U.S. dollars, Turkey's commitments as laid out in its Schedule are expressed in Turkish Lira which has depreciated against the U.S. dollar in the last two years.[7]

(a) Border measures

Import regime

13. In the agriculture sector, the high overall simple average MFN tariff (including the MHF levy) constitutes a significant barrier to imports. Moreover, tariff protection has increased since Turkey's previous Review in 1994, whether calculated on HS chapter 01-24 or on the Uruguay Round definition of agriculture (Table IV.3). This is also the case if tariff averages are calculated only on *ad valorem* tariffs excluding AVEs of specific rates.[8] In the case of meat (HS 02) and preparations of meat, fish or aquatic invertebrates (HS 16), tariff duties increase the landed price in Turkey by as much as 130% and 90%, respectively (Chart IV.2). MFN tariffs at the HS two-digit level are provided in Table AIII.1 and at ISIC-four digit level in Table AIV.1.

Table IV.3
Agricultural sector tariffs
(Per cent)

By definition	1993	1998 (second half)
HS chapters 01-24	37.1 (14.5)	47.9 (42.0)
Uruguay Round definition[a]	35.1 (14.5)	42.9 (45.2)
ISIC 1	28.4 (15.4)	28.1 (27.5)

a HS chapters 01-24 less fish and fishery products (HS 0301-0307, 0509, 1504, 1603-1605 and 230120) less some selected products (HS 290543, 290544, 3301, 3501-3505, 380910, 382360, 4101-4103, 4301, 5001-5003, 5105-5103, 5201-5203, 5301, and 5302).

Note: Standard deviation is provided in parenthesis. Tariff averages (including Mass Housing Fund levy) include *ad valorem* equivalents of specific, alternate and formula duties, as available.

Source: WTO Secretariat.

14. On the other hand, the transparency of the tariff structure has improved with the substantial reduction in the rate of the MHF levy. Currently, the MHF levy only applies to fish and fishery products (equivalent to 514 out of the total of 531 fish and fishery items at the HS twelve-digit level) raising the overall simple average MFN tariff on agricultural products (HS 01-24) from 45 to 48%.

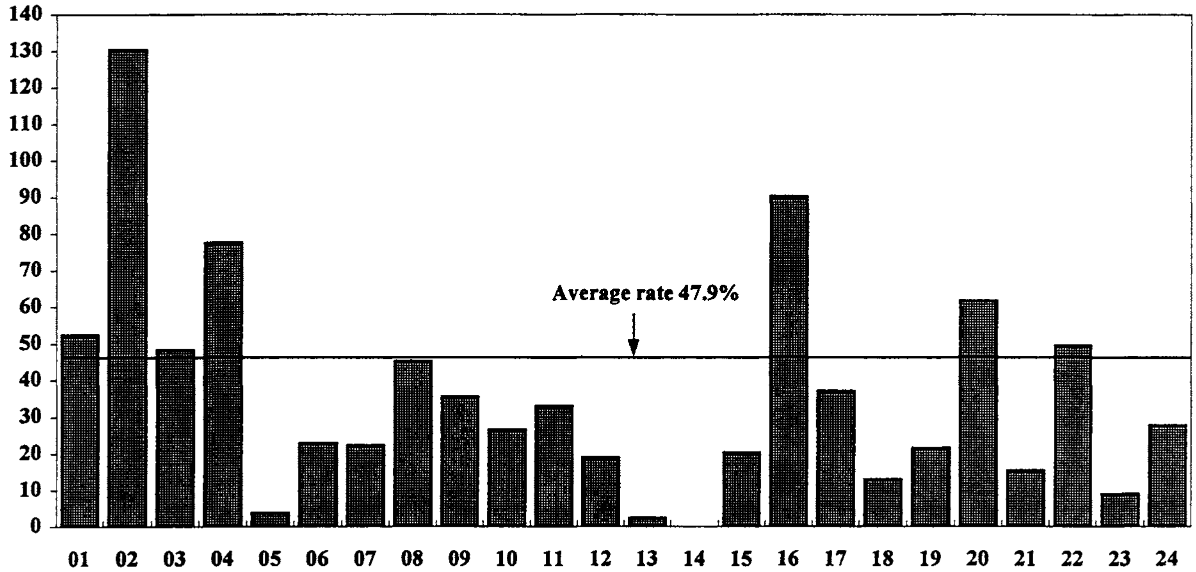
15. Unlike many other WTO Members, Turkey did not undertake any "tariffication" for agricultural products. The WTO Agreement on Agriculture required, *inter alia*, countries to abolish non-tariff measures (such as quantitative restrictions, discretionary licensing and variable levies) or convert them to tariffs by calculating their tariff equivalents and adding these to the fixed rates. Turkey did not notify any non-tariff measures, it bound its MFN rate as statutory rates, which were equal to or above the sum of applied MFN rates and MHF levies. Subsequently, Turkey unilaterally merged most of its MHF levies with the MFN rate.

[7] WTO document G/AG/R/10, 23 April 1997.

[8] Excluding AVEs, the average MFN tariff calculated on HS chapters 01-24 increased from 39.3% in 1993 to 49.7% in 1998, and if calculated on the Uruguay Round definition of agriculture the average increased from 31.3% to 44.6% over the same period.

Chart IV.2
Tariffs on agricultural products, 1998 (second half)

By HS chapter (per cent)



Chapter	Description HS Chapter
01	Live animals
02	Meat and edible meat offals
03	Fish and crustaceans, molluscs and other aquatic invertebrates
04	Dairy produce, birds eggs, natural honey, edible products of animal origin
05	Products of animal origin, n.e.s.
06	Live trees and other plants; bulbs, roots and the like; cut flowers
07	Edible vegetables and certain roots and tubers
08	Edible fruit and nuts; peel of citrus fruits or melons
09	Coffee, tea, mate and spices
10	Cereals
11	Products of the milling industry; malt; starches; wheat gluten
12	Oil seeds and oleaginous fruits; miscellanous grains, seeds and fruit
13	Lacs; gums, resins and other vegetable saps and extracts
14	Vegetable plaiting materials; vegetable products n.e.s.
15	Animal or vegetable fats and oils and other cleavage products; prepared edible fats; etc.
16	Preparations of meat, or fish or of crustaceans, molluscs or other aquatic invertebrates
17	Sugars and sugar confectionery
18	Cocoa and cocoa preparations
19	Preparations of cereals, flour, starch or milk; pastrycooks' products
20	Preparations of vegetables, fruit, nuts or other parts of plants
21	Miscellaneous edible preparations
22	Beverages, spirits and vinegar
23	Residues and waste from the food industries; prepared animal fodder
24	Tobacco and manufactured tobacco substitutes

Note: Tariff averages (including Mass Housing Fund levy) include *ad valorem* equivalents of specific, alternate and formula duties, as available.

Source: WTO Secretariat calculations.

16. As a result of the Uruguay Round, Turkey has bound all agricultural lines. Applied MFN rates are generally well below 1998 bound rates (Chart IV.3). It should be noted that applied tariffs shown in Chart IV.3 include all tariff lines, bound and unbound. However, in some categories, only a few lines are bound and/or the applied tariffs on non-bound products differ substantially from bound rates. Thus, in fishing, the applied MFN rate in 1998 appears to be higher than the bound rate, but this is a reflection of the fact that few lines are bound while a much larger number of lines, included in the calculation of applied rates, are unbound.

17. Since the previous Review, Turkey has introduced tariff quotas on imports of certain agricultural or processed agricultural products under preferential trade regimes with the EU, Israel, Hungary, Lithuania and Romania (Chapter III (2)(ii)(h) and Table III.6). For the EU, tariff quotas apply to a few processed agricultural products (equivalent to 26 items at the HS twelve-digit level) including certain pasta products, sealing wafers, rice paper, dry dough and pastry. Tariff quotas for Israel affect some agricultural goods and processed agricultural products (equivalent to 20 items at the four-digit level), including avocados, mangoes, carrots, sweet corn, citrus fruit, orange juice, coffee, kosher brandy, and vodka. Tariff quotas have also been opened in the context of the free-trade agreement with Hungary (19 items at the six-digit level), Lithuania (10 items) and Romania (31 items); these apply to, *inter alia*, live bovine animals and their meat, wheat, sunflower seed, apple juice, sparkling wine and beer. Similar arrangements will be made in the context of the free-trade agreements with Estonia, the Czech Republic and Slovak Republic.

18. Members have raised concerns in the WTO Committee on Agriculture regarding the use of import bans on agricultural products, which Turkey considers necessary to protect the domestic cattle industry.[9] A sanitary ban on imports of live animals (dairy and beef cattle, sheep, goats, and poultry) and meat (beef, sheep, goat, and poultry) has been in place since May 1996. The United States has also noted that the required control certificate for imports of sunflower seeds has acted as a temporary import ban.[10]

Export subsidies and taxes

19. Export subsidies are extended to agricultural products and processed agricultural goods. In 1997, they covered five agricultural products (at the HS four-digit level), all within the limits agreed in the context of the Uruguay Round.[11] Such subsidies took the form of rebates, paid as cash grants, ranging between 10% to 20% of the export values, depending on the commodity (Table IV.4). Export subsidies were also provided to 13 processed agricultural products (at the four-digit level) (Table IV.4). These subsidies were not paid in cash but provided to producers or exporters by deducting their debts to public corporations (taxes, social insurance premium costs, energy costs, and telecommunication costs) from their subsidy entitlement. The total export subsidy paid in 1997 was TL 2.3 trillion (or US$15 million).[12]

[9] WTO documents G/AG/R/12, 31 October 1997 and G/AG/R/13, 19 December 1997.

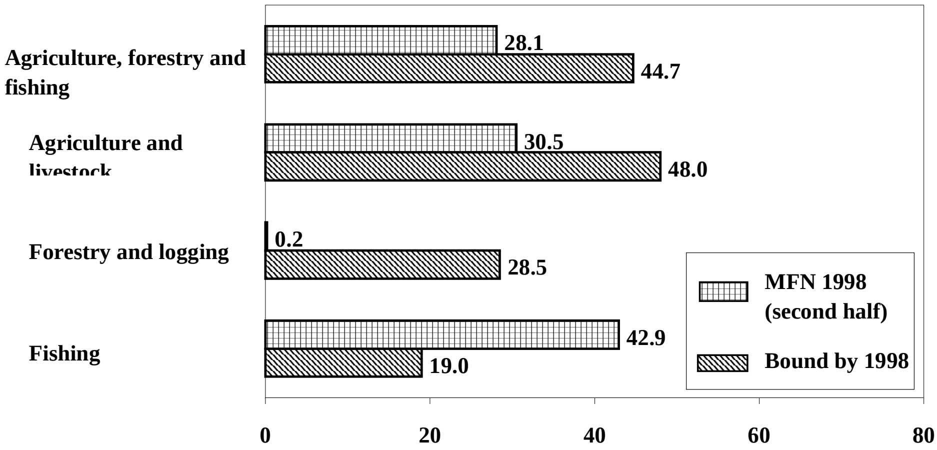
[10] WTO documents G/AG/R/5, 5 July 1996 and G/AG/R/13, 19 December 1997.

[11] Turkey has not been able to provide the WTO with 1997 data for the non-subsidized products. According to the authorities, the difficulty is linked to the restructuring of Turkey's statistical system required as part of the implementation of the customs union with the EU (WTO document G/AG/R/12, 31 October 1997).

[12] OECD (1998a).

Chart IV.3
Average tariff levels and bindings in agriculture, forestry and fishing, 1998

By ISIC category (per cent)



	Standard deviation		Bound[a]
	Bound	MFN	
Agriculture, forestry and fishing	44	28	82
Agriculture and livestock	47	28	99
Forestry and logging	18	1	74
Fishing	14	16	8

a Using the Uruguay Round definition of Agriculture (i.e. HS 01-24 less fish and fish products plus selected products) 100% of the tariff lines are bound.

Note: The MFN rate includes the Mass Housing Fund levy. Tariff averages include *ad valorem* equivalents of specific, alternate and formula duties, as available. Applied tariffs include all tariff lines (i.e. bound and unbound lines). When only a few lines are bound and/or the applied tariffs on unbound products differ substantially from bound rates, caution needs to be exercised in comparing bound rates with applied rates.

Source: WTO Secretariat.

20. The total amount, as well as the coverage of export subsidies for 1998 had not been decided at the time of completion of this report (July 1998). At the time of writing, the export subsidies applied to the 13 processed agricultural produces mentioned above in 1997 were still being extended. On agricultural products, subsidies for citrus fruit and apples were extended for a limited period (Table IV.4).

21. Exports of hazelnuts are subject to export taxes at the rate of US$0.04 per kg. for unshelled hazelnuts and US$0.08 per kg. for shelled hazelnuts. Exports of semi-processed leather are subject to an export tax at the rate of US$0.5 per kg. The taxes on hazelnuts are intended to limit exports and, hence, achieve price stability; they are applied for environmental reasons in the case of semi-processed leather.

Table IV.4
Export subsidies in the agriculture sector, 1997-98 (per June 1998)
(U.S. dollar and per cent)

	Subsidy rate (US$ per tonne)		Share of exported quantity eligible to receive subsidy (%)		Maximum rate in % of f.o.b. export price	
	1997	1998	1997	1998	1997	1998
Agricultural products:						
1. Apples [a, b]	50	65	100	100	10	10
2. Citrus fruits [a, c]	34	34	67	95	15	15
3. Onions [a]	21	n.a.	100	n.a.	15	n.a.
4. Potatoes [a]	21	n.a.	31	n.a	20	n.a.
5. Tomatoes [a]	18	n.a.	99	n.a.	15	n.a.
Processed agricultural products:						
1. Cut flowers (fresh) [d]	310	297	64	59	20	20
2. Fruit juices (concentrated) [d]	172	170	38	33	20	20
3. Fruits (frozen) [d]	96	94	99	32	20	20
4. Homogenized fruit preparations [d]	54	55	61	69	20	20
5. Olive oil [d]	110	96	100	100	10	10
6. Preserves, pastes [d]	55	57	85	72	20	20
7. Vegetables (dehydrated) [d]	375	370	22	23	10	10
8. Vegetables, frozen (excl. potatoes) [d]	110	107	52	40	20	20
9. Eggs [e]	7[f]	7[f]	69	10	10	10
10. Meat of poultry [e]	204	202	33	28	20	20
11. Milk powder [e]	70	70	87	87	10	10
12. Potatoes (frozen) [e]	55	55	85	85	20	20
13. Prepared or preserved fish [e]	150	150	100	100	10	10

n.a. Not applicable.

a 1 January - 31 December 1997 (Decision No. 97/1).
b 22 June - 22 July 1998 (Decision No. 98/6).
c 1 January - 30 April 1998 (Decision No. 98/2).
d 1 January - 31 December 1997 (Decision No. 97/2).
e 1 January - 31 December 1997 (Decision No. 97/4).
f Per 1,000 pieces.

Note: The 1998 coverage may change during the year.

Source: Government of Turkey.

(b) Domestic policy measures

Agricultural support schemes

22. Table IV.5 shows the main domestic supports and Table IV.6 indicates the cost of the programmes. Since 1994 the agricultural support schemes have been reduced in coverage from some 24 products to three: cereals (wheat, barley, rye, oats, maize and paddy), tobacco and sugar beet (Table IV.5). Although the coverage has decreased, the programme continues to be the largest expenditure item accounting for more than three quarters of total planned agricultural expenditure in 1998 (Table IV.6).

23. In setting the support prices under these schemes, factors such as the level of production, the international price, consumer demand and the rate of inflation are taken into account. The support prices, which are announced annually, have varied substantially, but most have increased more than inflation (as measured by the wholesale price index) since 1994 (Table AIV.2). The policy measures, in addition to reducing potential trade opportunities for competitive foreign producers, have often led

to substantial losses for the agricultural SEEs (often financed through the Budget) as they were obliged to purchase as much as farmers produced and hold large inventories.

Table IV.5
Main domestic supports in the agriculture sector

Sub-sector	**Policy instruments**	**Mechanism of intervention**
Cereals (wheat, barley, rye, oats, maize and paddy), sugar beet and tobacco	Price support scheme	TMO (the state cereals board), the TSFAS (the state sugar producing firm, also known as SEKER) or TEKEL[a] (the state tobacco and alcoholic beverages monopoly) purchase the output from the farmers using their own resources, and then charge the Treasury with the amount of purchase plus a 10% margin (termed "duty loss"). About 12 months after completion of an audit, compensation is made from budget appropriation. At the end of 1996, the Government decreed that the selling price of cereals should not be less than the buying price. Previously, the minimum selling price was 15% above the buying price.
Crops and livestock	Subsidized credits	In 1997, the credits were lower than the commercial rates by 46 percentage points for crops and 35 percentage points for livestock.
Cereals (wheat, barley, rye, oats and maize), hazelnuts, sunflower, cotton and tea	Subsidized credits	Introduced in December 1995, the Support Price and Stabilisation Fund (SPSF) extends new concessional funds (at 40-90 percentage points below commercial rates). The loans are channelled to the TMO (cereals), or the Agricultural Sales Co-operative Unions (ASCUs)[b] (hazelnuts, cotton, and sunflower) or CAYKUR (tea) through the Turkish Agricultural Bank. Up to the end of 1996, TL 6 trillion (US$74 million) had been extended for cereals; TL 33 trillion (US$409 million) for hazelnuts, cotton, and sunflower; and TL 2 trillion (US$25 million) for tea.
Fertilizers & pesticides	Subsidy provided directly to farmers	On presentation of receipts for the purchase of fertilizers or pesticides, the Agricultural Bank (Z.B.) refunds farmers. Up to the end of November 1997, the fertilizer subsidy was 50% of the buying price. Since then, the subsidy has been a fixed amount per kg. output. The pesticide subsidy is 20% of the buying price.
Vineyards and milk	Specific subsidies	Specific subsidies are temporary provided to vineyard plants in less favoured areas and to low-income milk farmers.
Tobacco and tea	Direct payment programme	Deficiency payments, an output subsidy in which the rate per unit of output of a commodity is the difference between the administered price and the market price.
Livestock incentive	Direct payment programme	Almost no funds allocated in 1998 (TL 72 billion). In 1997, payments were mainly to compensate for the slaughter of animals for sanitary reasons.
Irrigation	Provision of irrigation	Government funds invested in irrigation schemes. The operation and maintenance is being transferred to user associations.

a TMO, TSFAS, and TEKEL intervene through purchases and stockpiling; they are also allowed to determine the level of production through forward contracts with growers, handling sales and marketing activities, disbursing subsidies, and administering investment, import and export policies.

b Agricultural Sales Co-operative Unions (ASCUs) are commercial organizations formed by an association of three or more agricultural sales co-operatives, authorized to set prices for their members' commodities.

Source: WTO Secretariat based on World Bank (1996), Turkey- Challenges for Adjustment; IMF (1996), "Turkey - Recent Economic Developments", IMF Staff Country Report No. 96/122; OECD (1997), Agricultural Policies in OECD Countries - Monitoring and Evaluation 1997; and OECD (1998), Agricultural Policies in OECD Countries - Monitoring and Evaluation 1998.

Table IV.6
Payments to agriculture sector in Turkey, 1993-98
(TL billion, unless otherwise indicated)

	1993	1994	1995	1996	1997	1998 Programme
Budgetary expenditures for agricultural SEEs[a]	8,011	2,433	3,330	5,650	27,830	10,000
Duty loss	4,861	0	0	3,150	0	0
Equity injection	3,150	2,433	3,330	2,500	27,830	10,000
Support purchases (partially from Budget)	33,942	41,828	58,907	158,847	558,666	743,459
Cereals by TMO	8,231	7,801	2,370	29,500	190,340	194,962
Tobacco by TEKEL[b]	7,602	10,913	11,408	19,805	47,860	165,400
Sugar-beet by TSFAS	16,248	19,646	37,148	54,157	180,342	267,894
Green tea leaf (by CAYKUR)	1,861	3,468	5,254	13,167	28,236	45,203
From SPSF (from Budget)	0	0	2,727	42,218	111,888	70,000
Input subsidies payments (from Budget)	3,546	8,771	12,264	52,575	94,617	120,000
Fertilizers	3,311	7,923	9,231	44,983	83,635	99,000
Agricultural pesticides	105	177	1,138	2,573	3,789	9,250
Seeds and plant (including vineyard)	35	62	70	194	768	2,210
Milk premium	96	609	1,824	4,825	6,425	9,540
Compensation payments (partially from Budget)	4,647	4,311	3,710	5,943	13,854	2,800
Tobacco quota (by TEKEL)	0	0	1,596	4,261	6,033	0
Tobacco premium (by TEKEL)	0	4,028	1,351	0	5,410	0
Cotton premium (by Ziraat Bankasi)	4,647	0	0	0	0	0
Tea pruning project (by Ziraat Bankasi)	0	283	763	1,682	2,411	2,800
Livestock incentive payments (from Budget)	457	883	584	118	2,045	72
Meat premium	0	129	146	0	12	0
Animal husbandry based on projects	99	590	205	46	59	3
Artificial insemination	0	0	0	0	0	0
Contractual animal husbandry	348	78	0	0	0	0
Imported breeding stock	2	60	215	40	1,938	66
Certified animal husbandry	9	26	18	32	37	3
Total payments	50,603	58,226	78,794	223,133	697,012	876,331
Total payments/GNP (%)	2.5	1.5	1.0	1.5	2.4	1.8
Memo:						
GNP (TL trillion)	1,997	3,888	7,855	15,125	29,054	49,079

a Costs associated with transfers to state economic enterprises through Budget appropriations.
b Includes own requirement and support purchases.

Source: Government of Turkey.

Concessional credit

24. Farmers continue to benefit from loans extended at concessional rates: in 1997 the rates were 35 and 46 percentage points below the commercial rates for crops and livestock, respectively. Since December 1995, farmers co-operatives (ASCUs) have benefited from even lower interest rates (40-90 percentage points below commercial rates) for the purchase of selected commodities. The loans are channelled to the ASCUs, which are producer-owned bodies with statutory powers, through the state-owned Agricultural Bank (Z.B.) (hazelnuts, cotton and sunflower) or to the state-owned

Turkish Grain Board (TMO) (cereals) or to the CAYKUR (tea). In addition, the livestock sector benefits from three recently introduced programmes, providing mainly subsidized loans.[13]

Other input subsidies

25. Fertilizer subsidies are also a substantial budget item (Table IV.6). On presentation of receipts for the purchase of fertilizers, the state-owned Agricultural Bank (Z.B.) refunds farmers at a fixed amount per kg. output. Up to the end of November 1997, farmers were refunded at the rate of 50% of their buying price. The new system, which is not indexed, should over time be less costly as inflation erodes the value of the transfer. Under a subsidy mechanism for pesticides, farmers are refunded at the rate of 20% of their buying price.

26. Part of the cost of the operation and maintenance of irrigation schemes operated by the State Hydraulic Works (DSI) was transferred to user associations in 1993. In schemes managed by the DSI, users pay an annual fee approved by the Government, but this fee has not been adjusted for inflation since 1985 and is currently negligible. Furthermore, the collection rate from farmers is low (41%).

27. Specific subsidies are periodically provided on a temporary basis (generally for one year) to vineyard plants in less favoured areas according to a Government Communiqué, dating back to 1992, and to low-income milk farmers in order to increase productivity.[14]

Other internal measures

28. Limits are placed on the extent of the area planted with tobacco, and tea plantations are subject to pruning requirements to control output and improve quality. Farmers affected by these supply control measures are provided with compensation payments. The livestock incentive payments, which have varied in recent years, are estimated to account for a negligible share of expenditure in 1998. In 1997, payments were mostly made to livestock farmers to compensate for the slaughter of animals for sanitary reasons. Most farmers pay no levies on the production of agricultural products, and are exempt from income tax.[15] There is a withholding tax of 2 to 4% on sales, but this is halved if the marketing is done through the commodity exchanges.

(iii) Planned reforms

29. Changes in agricultural policies are being made in the light of Turkey's obligations under the WTO and the CUD between the EU and Turkey. As noted above, Turkey's obligations under the WTO regime cut budgetary outlays for export subsides by 24%, and the volume of subsidized exports by 14% between 1995 and 2004, in equal instalments. Moreover, Turkey has bound all its agricultural products, and is making a minimum reduction of the tariffs of 10% on a product-by-product basis, and a 24% reduction on average. The reductions are being implemented in equal annual instalments over the 1995 to 2004 period.

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[13] The programmes are: (i) low-interest loans for the procurement of feeder cattle (valued at TL 1 trillion or US$22 million); (ii) low-interest loans for general livestock development in eastern and south-eastern Turkey (TL 2 trillion or US$44 million); and (iii) subsidized loans for the purchase of cattle for both breeding and slaughtering (TL 14.4 trillion or US$288 million) and subsidize feed and other inputs to small livestock farmers (TL 3.6 trillion or US$72 million) (OECD, 1996, p. 74).

[14] WTO document G/AG/R/11, 28 July 1997.

[15] Farmers with incomes below TL 864 million (in 1997) are exempt from taxation.

30. While the CUD applies only to manufactures (including agrochemicals) and processed agricultural products, Turkey and the EU have also agreed to work towards free circulation in agricultural products. However, before this can take place, Turkey will need to adapt its agricultural and trade-related policies to those of EU CAP. At present, agricultural trade between Turkey and the EU is subject to a preferential regime with limited coverage, delaying the exposure of the sector to greater competition.[16] To align its agricultural policies with those of the EU, Turkey will need to establish Common Market Organizations (price support systems) for certain agricultural products, as under the CAP. Meanwhile, processed agricultural products imported into Turkey are subject to customs duties comprising an industrial and an agricultural component; the industrial share enjoys duty-free treatment while the agricultural component will continue to be subject to customs duty.[17]

(3) ENERGY

(i) Main features

31. The energy sector accounts for an increasing share of GNP (from 2% in 1990 to 3% in 1997) and fuel remains an important import item (US$5 billion in 1997 or 10% of merchandise imports (Table AI.5)). As a share of net imports, Turkey's total energy requirements have steadily increased, amounting to some 55% in 1996 (Table IV.7). In spite of a decrease in relative terms, petroleum remains the major fuel, providing some 46% of Turkey's total energy requirements. Coal is also an important fuel source, providing 27% of requirements (17% by lignite or brown coal and 10% by hard coal). Natural gas has only recently been made available in Turkey. Demand for natural gas is projected to increase substantially over the coming years, with imports covering the increased demand.

32. The Government plays a prominent role in the energy sector. The state economic enterprises (SEEs) dominate the market and most prices are regulated (Table IV.8). In the hard coal sector, prices do not cover the cost of supply. After years of operating losses, Turkish Lignite Enterprises (TKI) made a profit in 1995 due to price increases and cost reductions. In the oil sector, the Government until recently set ex-refinery prices and did not systematically increase oil product prices in line with the cost of supplies; in consequence, the state economic enterprise, TUPRAS, made periodic losses. In July 1998, the Government launched a new price fixing system for petroleum products, whereby prices are fixed in line with world market prices. In the natural gas sector, there are cross-subsidies between industries and households in favour of the latter. Most of the SEEs rely on the Treasury for the financing of their investments as well as resource transfers for the financing of losses.

[16] OECD (1996).

[17] The agricultural component of each good is calculated by multiplying the quantity of primary agriculture products used in processing, according to an agreed set of ratios, by a specific rate charge (so called "basic amount"). These basic amounts vary by commodity, and will be reduced proportionally in line with subsequent reductions in actual duties on primary agricultural commodities (OECD, 1996, p. 75).

Table IV.7
Turkey's energy balances, 1973-2010
(Million tonnes of oil equivalent)

		1973	1990	1994	1996	2000	2010
Total production		15.62	25.12	25.06	26.92	31.09	52.70
Coal[a]		5.28	11.72	12.11	12.30	16.15	28.23
Oil		3.69	3.90	3.87	3.68	2.85	1.19
Gas		0.00	0.19	0.18	0.19	0.56	0.12
Comb. renewables & wastes[b]		6.41	7.21	7.11	7.05	6.96	7.16
Nuclear		0.00	0.00	0.00	0.00	0.00	3.66
Hydro		0.22	1.99	2.63	3.48	3.76	7.34
Geothermal		0.00	0.09	0.12	0.16	0.69	4.64
Solar/Wind/Other[c]		0.00	0.02	0.05	0.08	0.12	0.36
Total net imports[d]		9.02	28.48	33.72	36.49	59.94	122.38
Coal[a]	Exports	0.00	0.00	0.00	0.00	0.00	0.00
	Imports	0.01	4.56	4.76	5.20	8.08	25.44
	Net Imports	0.01	4.56	4.76	5.20	8.08	25.44
Oil	Exports	0.86	2.03	2.23	1.85	0.00	0.00
	Imports	9.96	23.40	25.69	29.48	35.38	49.45
	Bunkers	0.09	0.36	0.40	0.46	0.00	0.00
	Net Imports	9.01	21.02	23.06	27.17	35.38	49.45
Gas	Exports	0.00	0.00	0.00	0.00	0.00	0.00
	Imports	0.00	2.96	4.89	7.13	16.47	47.49
	Net Imports	0.00	2.96	4.89	7.13	16.47	47.49
Electricity	Exports	0.00	0.08	0.05	0.03	0.00	0.00
	Imports	0.00	0.02	0.00	0.02	0.00	0.00
	Net Imports	0.00	-0.06	-0.05	-0.01	0.00	0.00
Total stock changes		0.27	-0.95	-0.10	0.38	0.00	0.00
Total supply (TPES)		24.46	52.63	58.68	66.89	91.03	175.07
Coal[a]		5.24	16.38	16.76	18.00	24.23	53.67
Oil		12.60	23.90	27.14	30.94	38.24	50.64
Gas		0.00	3.11	4.92	7.19	17.03	47.61
Comb. renewables & wastes[b]		6.41	7.21	7.11	7.05	6.96	7.16
Nuclear		0.00	0.00	0.00	0.00	0.00	3.66
Hydro		0.22	1.99	2.63	3.48	3.76	6.67
Geothermal		0.00	0.09	0.12	0.16	0.69	4.64
Solar/Wind/Other[c]		0.00	0.02	0.05	0.08	0.12	0.36
Electricity Trade[e]		0.00	-0.06	-0.05	-0.01	0.00	0.00
Shares (%)							
Coal		21.4	31.1	28.6	26.9	26.6	30.7
Oil		51.5	45.4	46.3	46.3	42.0	28.9
Gas		0.0	5.9	8.4	10.7	18.7	27.2
Comb. renewables & wastes		26.2	13.7	12.1	10.5	7.6	4.1
Nuclear		0.0	0.0	0.0	0.0	0.0	2.1
Hydro		0.9	3.8	4.5	5.2	4.1	4.3
Geothermal		0.0	0.2	0.2	0.2	0.8	2.7
Solar/Wind/Other		0.0	0.0	0.1	0.1	0.1	0.2
Electricity Trade		0.0	-0.1	-0.1	0.0	0.0	0.0

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

Source: Data supplied by the Government of Turkey.

Table IV.8
Selective State interventions in the energy sector

State-economic enterprise	Market share	Price regulation	Other
Oil & Gas:			
Turkish State Petroleum Company (TPAO): production and exploration	Produces 73% of Turkish oil (1995); owns and operates seven out of eight gas fields.	Price of crude oil is set by the Government.	Oil producers may only export up to 35% of oil production from new reservoirs.
Turkish Petroleum Refinery Corporation (TUPRAS)[a]: refining	Owns four out of five refineries; 85% of total capacity.	Ex-refinery oil product price is set in line with Italian c.i.f. price in a band of plus or minus 3%.	The price system was introduced in July 1998.
Petrol Ofisi[a]: oil products distribution and marketing	Market share of about 50% (1996); 12 other distribution companies operating in Turkey.	At the distribution level, prices of oil products are market determined.	Oil product importers must hold stock of minimum 90 days of annual imports. Distribution companies must hold stock of minimum 10 days.
Botas: import, distribution and sale of oil and gas	Legal monopoly status.	Botas sets price of natural gas, except in the cities. Fertilizer industry is charged the least.	
Coal:			
Turkish Hardcoal Enterprises (TTK): hard coal	Sole producer of hard cole.	Prices set by TTK and the Government may influence the prices.	Heavily subsidized.
Turkish Lignite Enterprises (TKI): lignite	Produces 60% of Turkish lignite (1995).	Prices set by TKI and the Government may influence the prices.	
Electricity:			
Turkish Electricity Generating and Transmission Corporation (TEAS): generation and transport	Owns 74% of electricity generation capacity (1995).	Prices set by TEAS are influenced by Government policies.	TEAS's and TEDAS's operating rights are being transferred to private sector.
Turkish Electricity Distribution Corporation (TEDAS): distribution	Owns and manages the main distribution lines.	Prices set by TEDAS are influenced by Government policies.	

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

Source: WTO Secretariat based on information provided by the Government of Turkey; and the International Energy Agency (1997), Energy Policies of IEA Countries - Turkey 1997 Review, Paris.

33. With the objective of meeting energy demand, improving the functioning of the sector, and reducing transfers to the SEEs, the Turkish electricity sector - which is over 90% state owned - is a primary target of the privatization programme. However, legal disputes have caused delays in the implementation of the BOO/BOT schemes, which are being used to draw the private sector into large scale infrastructure projects.[18] The Government has decided to sell the operating rights for lignite mines, electricity plants, and distribution plants in the electricity sector. State petroleum distribution and refining industries are also slated for privatization.

[18] Under the BOT (build, operate and transfer) schemes, private investors recover their costs for building a plant through operating it for a certain period before handing it back to the Government, while under the BOO (build, operate and own) schemes, ownership remains with the private investor.

(ii) Policy objectives and instruments[19]

34. Issues related to energy and mining are under the responsibility of the Ministry of Energy and Natural Resources (MENR), whereas issues related to quarrying are under the responsibility of the Ministry of Interior. The General Directorate of Mining Affairs is responsible for the administration of the Mining Law on behalf of the MENR. The State Planning Organization (SPO) evaluates Turkey's energy needs in consultation with the MENR and the relevant SEE and makes annual investment decisions, while the Privatization Administration is responsible for the sale of state-economic enterprises, preparing them for privatization.

35. Tariffs are not a barrier to trade in the energy sector. The simple average MFN tariff in mining and quarrying (ISIC 2) is only 0.2%, down from 21.4% in 1993 (Table AIV.1). Imports from EU/EFTA are free of duty. The Mass Housing Fund levy has been gradually abolished since the previous Review, while the minerals levy of 2.5%, which had been applied since 1985 on imports of minerals used for energy production, metallic minerals, industrial minerals and precious stones to finance the Mining Fund, was abolished on 27 January 1996.[20] Concessional credits were extended through the fund, at the same rates as export credits to finance stockholding prior to export.

36. According to Mining Law No. 3213, foreign nationals and companies may invest in the mining sector only through locally incorporated companies. In the petroleum subsector, foreign enterprises may invest in marketing and sales activities without restriction. In petroleum exploration, they may invest provided they are not controlled or owned by foreign States. Petroleum-related activities can be carried out through locally incorporated stock companies or Turkish branches of stock companies incorporated abroad. For investment in refining, transportation through pipelines and storage, approval by the Council of Ministers is required. Investments in all minerals are open to foreign investors, except baron, uranium and thorium, where exploration and exploitation are reserved for the Government.

37. A number of sector-specific incentives are offered to national and foreign investors on an equal basis. In order to provide financial support to power projects and to maintain stability of electrical energy prices, the Electrical Energy Fund (EEF) was established in March 1990 under Law No. 3613. In 1997, the EEF's resources were TL 6.5 trillion (equivalent to US$43 million). Financial support in the form of credits is provided through the fund for hydro and thermal projects. Hydro power projects also receive the following incentives: (i) if the energy generation amount is less than expected due to insufficiency of natural rate of flow, the EEF pays a portion of the tariff; (ii) if the company does not generate energy due to *force majeure*, the EEF pays the tariff; (iii) the above EFF payments are reflected as an increase to the tariff and repaid by the Turkish Electricity Generation and Transmission Corporation (TEAS) to the EEF; (iv) if the concession agreement is terminated due to *force majeure*, the equity of the company not repaid through the tariff is paid by the EEF; and (v) if the concession agreement is terminated due to *force majeure* or company default, the debt not repaid through the tariff is assumed by the EEF. Support is also extended to electricity related companies for R&D activities, planning, projecting and controlling studies, patent and licence applications, and know-how and marketing activities.

38. In 1985 a Mining Fund was established (Article 34 of Law No. 3613) under the supervision of the Ministry of Energy and Natural Resources to provide financial credits for exploration, technical research, development, project preparation, installation, construction, production and export activities. There are currently five types of schemes providing credits at rates well below market rates (Table IV.9). Five per cent of gross profits obtained from a mining operation are payable to the fund.

[19] This sector draws on the International Energy Agency (1997).
[20] WTO document WT/BOP/W/6, 11 September 1995.

Other resources include: transferred deposits; revenues obtained by selling confiscated ore and material; public auction revenues; and a budget allowance.

Table IV.9
Credit schemes through the Mining Fund, June 1998

Scheme		General features	Nominal interest rate
A.	Mine research and development	Maximum three year credit; no repayment on principle for the first year; amount cannot exceed 50% of expenditure on exploration and definition of mineral reserves and other properties in the permitted area	50%
B.	Installations, enlargement and development	Maximum five year credit; no repayment on principle for the first two years; amount is proportional to self-source rate; credit covers expenditure on expansion of facility, for enlargement and renovation investment, and for infrastructure expenditure in the permitted area	55%
C.	Management (operating) credit	Maximum three year credit; no repayment on principle for the first year	55%
D.	Export credit		50%
	(i) Export credit	One year credit; 50% of total expenditure to meet the needs of production and exports of the mineral	
	(ii) Letter of credit of export certificate credit	Six month credit period; maximum 50% of the letter of credit; the credit is to supply the finance until the export of the mineral	
E.	Stock credit	Stock credit maximum 20-40% of the stock cost for minerals produced and prepared	50-60%

Note: All credits require a bank guarantee letter, covering one and a half times the credit amount.

Source: WTO Secretariat based on information provided by the Government of Turkey.

(b) Oil and natural gas

39. There are four SEEs in the oil sector: the Turkish State Petroleum Company (TPAO), the Turkish Petroleum Refinery Corporation (TUPRAS), Petrol Ofisi and Botas. Although only Botas has legal monopoly status (on import, distribution and sale of oil and natural gas), the other three SEEs all have the largest shares in their respective markets (Table IV.8). Oil resources are owned by the State, which grants licences for exploration and production. There are 25 companies in the upstream oil sector in Turkey, located mainly in the south-east of the country where the fields produce heavy and high sulphur content oil. Almost three quarters of domestic oil production is accounted for by TPAO, with foreign operators (including Shell and Mobil) accounting for the remainder. There are eight gas fields, seven of which are owned and operated by TAPO. Out of Turkey's five refineries with a total capacity of 32 million tonnes, TUPRAS owns four and accounts for more than 85% of total capacity. In distribution, there are 13 active companies, with the national distributor company Petrol Ofisi accounting for about half of the market share.

40. Several prices in the oil and gas sector are not determined by the market (Table IV.8). The Government also intervenes in other areas in the oil sector. For example, domestic oil producers are only allowed to sell up to 35% of their oil production on the international market. Moreover, according to Decree No. 89/14264, all oil product importers are obliged to hold emergency product stocks of at least 90 days of their annual imports. Since August 1995 distribution companies are obliged to hold stocks equivalent to at least ten days' consumption.

41. In the early 1990s, the Government decided to privatize TUPRAS and Petrol Ofisi. Currently, the share of the private sector is 3.6% for Tupras and 6.7% for Petrol Ofisi. The Government is considering liberalizing the importation, transportation and distribution of natural gas. Eventually, the Government plans to establish an independent regulator to handle access to pipelines and pricing issues.

(c) Coal

42. Coal (mainly brown coal or lignite) is a major fuel source and Turkey is a major producer. In the brown coal sector, the Turkish Lignite Enterprises (TKI) produces some 60% (1995) of all lignite in Turkey. Turkish brown coal has a low calorific value and a high sulphur, dust and ash content, while Turkish hard coal is low grade. The state economic enterprise Turkish Hardcoal Enterprises (TTK) is the only hard coal producer.

43. The state economic enterprises in the coal sector set the prices of hard coal and lignite, taking account of world prices of hard coal. However, these prices do not allow the TTK to recover its costs. The Government may influence the prices for social and economic reasons.

44. Recently, the Government has tried to increase productivity in the coal sector. TTK's workforce was reduced from 34,000 in 1990 to 21,500 in 1995. The Government is transferring to the private sector the operational rights for most of TTK's profitable lignite mines. The workforce of TKI also decreased, from 27,855 in 1990 to 12,192 in 1995.

45. Hard coal production is heavily subsidized. According to the producer subsidy equivalent (PSE) method, total subsidies paid by the Treasury to TTK amounted to TL 12.2 trillion (equivalent to US$267 million) in 1995, up from TL 0.2 trillion in 1990 (equivalent to US$24 million). Deficit grants to cover losses not benefiting current production increased substantially in 1995. In 1995, total subsidies amounted to the equivalent of TL 489 million (US$9,600) per employee.

(d) Electricity

46. Turkey has diversified the fuel mix used for its increased electricity generation. The share of oil in total electrical capacity has decreased substantially, while lignite and hydro-electric power have increased their share. Natural gas also become an important fuel for electricity generation. Overall, the growth in non-hydro capacity has not kept pace with the growth in overall electricity demand, resulting in a situation where electricity production has become sensitive to weather conditions. However, since 1990, Turkey has been a net-exporter of electricity despite some localized shortages (Table IV.7).

47. Electricity generation, transportation and distribution is primarily dominated by large SEEs. In 1995, the Turkish Electricity Generation and Transmission Corporation (TEAS) owned some 74% of electric generation, while the Turkish Electricity Distribution Corporation (TEDAS) owned and managed the main distribution lines. The prices charged by TEAS and TEDAS are influenced by government policies. For example, the Government uses energy prices to achieve social objectives and, in the past, the selling price of electricity has not allowed the TEAS and TEDAS to make the necessary investment. This is exacerbated by the fact that more than 7% of electricity consumption is not paid for by customers. However, a TEAS-World Bank project team has been working on a new pricing model which takes account of the long-run marginal costs of generation, transmission and distribution.

48. The lack of adequate investment and large energy wastage have led to power shortages in some areas. Increasing the country's electricity generating capacity is a top priority for the Government, which is now turning to the private sector for new investment and restructuring of the sector. Parliament passed new laws in 1994 to encourage investment in BOT projects through measures such as exemption from certain duties and a Treasury guarantee for the execution of the power purchase agreement. However, in February 1995, the court ruled that all BOT projects had to be reviewed by the country's highest administrative court, the Council of State. To speed up the process, the Government decided to turn to BOO schemes and issued a Decree in June 1996. The

programme once again experienced a set-back in March 1997 when the Decree was declared illegal. In July 1997 a law on BOO programmes was adopted by the Parliament. Between 1984 and June 1998 there were only six hydro-electric plants and one thermal power plant built and run under the BOT programme. At the beginning of 1999, three combined-cycle natural gas power projects with a total capacity of 1,135 MW are expected to be in operation. The operating rights of both TAES and TEDAS are being transferred to the private sector as part of the privatization programme.[21] The operating rights of the thermal power plants have been transferred to the private sector for a period of 20 years, while that of the distribution foundations have been transferred for 30 years. Turkey plans to commission a nuclear power plant at the beginning of the next century; an international tender was opened in December 1996 for the building of the plant.

(4) MANUFACTURING[22]

(i) Main features

49. The Turkish manufacturing sector has experienced strong growth since the initiation of the structural reform programme in the early 1980s, but has suffered from periodic recessions, the most recent in 1994. Over the period 1981 to 1996, annual real growth amounted to some 6.5% and manufacturing now accounts for about one quarter of GDP. Private investors have gradually moved into more sophisticated areas such as consumer electronics and the automotive industry. The composition of Turkey's manufacturing sector and international trade reflects its strength in labour-intensive production: almost one third of manufacturing value added is in the textiles and leather, and food, beverages and tobacco sectors (Table IV.10). Similarly, manufacturing exports (accounting for some three quarters of total merchandise exports) mainly consist of textiles, clothing and food. On the other hand, imports of manufactured products (72% of total merchandise imports) are concentrated in the more capital intensive industrial chemicals, and transport equipment sectors.

50. The State continues to play an important role in manufacturing production: the share of state economic enterprises (SEEs) in GDP (at constant prices) expanded from 9% in 1993 to 11% (1995). Over the same period, the manufacturing sector accounted for an increasing share of the SEEs' total output (from 26 to 38%) (Table III.21). SEEs have significant shares in heavy industries, such as petroleum refineries, non-ferrous basic metals, industrial chemicals, and iron and steel basic metals, but also extend to such fields as tobacco and beverages (Table IV.10).

[21] Law No. 3096 of December 1984 removed the exclusive rights of TEK, a state economic enterprise that was split up into TEAS and TEDAS in 1994, to supply electricity, and authorized private operators to generate, transmit, distribute and trade electricity. According to the Law, the term of the contract may be up to 99 years, but contracts generally last 15 to 20 years and the plant is then to be transferred to the Government.

[22] Unless otherwise indicated, the ISIC classification of industry is used throughout the section.

Table IV.10
Overview of the manufacturing industry, by ISIC category
(Per cent)

Description (ISIC No.)	Share of manufacturing value added		Share of manufacturing employment		Share of manufacturing imports		Share of manufacturing exports	
	1990	1994	1990	1994	1990	1997	1990	1997
Food, beverages and tobacco (31)	16.0 (47.1)	14.8 (26.9)	18.0 (45.9)	18.0 (39.9)	7.4	4.7	15.7	15.2
Food (311-312)	8.8 (25.9)	8.4 (22.8)	13.3 (37.4)	10.8 (26.0)	5.5	4.5	15.3	14.4
Beverages (313)	3.1 (51.3)	2.6 (34.6)	1.4 (36.8)	1.2 (36.7)	0.1	0.1	0.2	0.3
Tobacco (314)	4.0 (89.8)	2.2 (43.8)	3.3 (84.1)	2.8 (83.3)	1.8	0.1	0.2	0.5
Textiles, clothing and leather (32)	14.9 (7.1)	17.3 (3.5)	29.1 (11.5)	30.8 (8.5)	4.4	7.5	43.2	43.0
Textiles (321)	11.2 (8.4)	12.5 (3.5)	20.3 (13.8)	19.9 (10.0)	3.6	6.1	25.8	30.6
Clothing (excl. footwear) (322)	3.3 (1.3)	4.3 (2.3)	7.6 (3.3)	9.5 (4.0)	0.0	0.4	16.2	10.8
Leather & leather products (323)	0.2 (0.0)	0.3 (10.8)	0.5 (0.0)	07 (19.3)	0.7	0.8	0.9	0.9
Footwear (324)	0.2 (33.0)	0.2 (14.5)	0.6 (44.6)	0.6 (17.2)	0.1	0.2	0.2	0.6
Wood and wood products (33)	0.9 (25.4)	0.9 (11.0)	1.8 (32.3)	2.2 (21.3)	0.3	0.5	0.5	0.6
Wood & cork products (331)	0.6 (36.4)	0.5 (19.7)	1.4 (42.6)	1.4 (32.7)	0.2	0.2	0.3	0.3
Furniture & fixtures (332)	0.3 (0.0)	0.4 (0.1)	0.4 (0.0)	0.8 (0.3)	0.1	0.3	0.2	0.3
Paper, printing and publishing (34)	3.4 (22.9)	3.9 (14.0)	3.6 (39.9)	3.6 (31.6)	1.9	2.3	0.6	0.7
Paper & paper products (341)	1.9 (34.7)	1.9 (22.1)	2.2 (54.6)	2.1 (44.7)	1.7	2.0	0.5	0.5
Printing, publishing & allied industries (342)	1.5 (7.8)	2.0 (6.0)	2.0 (6.0)	1.5 (13.6)	0.2	0.2	0.1	0.2
Chemicals, petroleum, plastics & rubber products (35)	29.9 (59.6)	26.8 (52.2)	9.9 (41.7)	9.6 (25.8)	24.9	21.8	11.6	8.1
Industrial chemicals (351)	4.9 (39.0)	5.0 (46.8)	3.2 (100)	2.6 (54.0)	14.8	12.7	5.6	2.3
Other chemical products (352)	5.0 (2.4)	6.0 (2.0)	2.8 (8.4)	2.8 (7.5)	3.9	4.9	2.3	2.9
Petroleum refineries (353)	15.7 (100)	11.4 (100)	0.5 (100)	0.5 (100)	4.8	2.7	2.8	0.7
Petroleum & coal derivs. (354)	1.6 (4.3)	1.1 (1.8)	0.5 (24.6)	0.5 (30.2)	0.1	0.2	0.0	0.0
Rubber products (355)	1.6 (0.7)	1.9 (1.4)	1.3 (3.0)	1.4 (10.0)	0.9	0.7	0.7	1.4
Plastic products n.e.c. (356)	1.1 (1.8)	1.5 (3.4)	1.6 (1.5)	1.8 (1.2)	0.4	0.6	0.2	0.8
Non-metallic products (36)	8.2 (11.9)	7.6 (5.1)	7.6 (15.9)	6.9 (9.9)	1.5	1.0	3.6	3.8
Basic metal (37)	6.9 (33.3)	9.3 (38.7)	8.4 (58.8)	6.8 (56.6)	13.1	10.5	15.3	10.8
Iron & steel basic metal (371)	4.9 (36.1)	8.1 (37.3)	6.4 (59.9)	5.5 (58.4)	10.1	8.0	13.2	9.2
Non-ferrous basic metal (372)	2.0 (26.6)	1.1 (49.1)	2.1 (55.3)	1.3 (49.0)	3.0	2.5	2.1	1.5
Fabricated metal products, machinery & equipment (38)	19.5 (6.1)	19.2 (5.3)	21.1 (15.0)	21.3 (11.7)	45.6	50.4	9.3	16.6
Fabricated metal products (381)	3.1 (4.7)	2.9 (6.0)	4.1 (6.1)	4.4 (6.7)	1.8	2.3	1.5	2.3
Machinery & equipment (incl. prof. & scientific equi.) (382-383, 385)	10.4 (6.3)	10.1 (4.6)	10.4 (14.8)	9.9 (11.6)	33.0	32.4	5.7	9.4
Transport equipment (384)	6.0 (6.6)	6.1 (6.1)	6.5 (21.1)	7.0 (15.0)	10.8	15.7	2.2	4.9
Other manufacturing (39)	0.3 (3.9)	0.3 (8.0)	0.5 (9.6)	0.6 (10.5)	0.9	1.4	0.3	1.2

Note: Data in parenthesis show public sector share. Private sector data for 1990 include only establishments where 25 or more persons are engaged and data for 1994 include establishments of ten or more

Source: WTO Secretariat calculations based on data provided by the State Institute of Statistics; State Institute of Statistics (1997), 1996 Statistical Yearbook of Turkey, February, Table 216; and UNSD, Comtrade database.

(ii) Policy instruments

51. One of the most notable achievements since Turkey's previous Review is the sizable reduction of applied tariffs, which are now the main border measure. Moreover, the virtual elimination of the MHF levy has simplified the calculation of total taxes payable on imports and thus improved the transparency of protection for manufactures.[23] As a result of the customs union between Turkey and the EU, Turkey eliminated tariffs and levies on manufactured imports from the EU on 1 January 1996 and applied the EU common external tariff on imports from third countries.[24] Except for a few tariff peaks (food, beverages and tobacco products) import protection is now moderate (Chart IV.4). The simple average MFN tariff (ISIC 3) has been reduced by more than half from 26.7% in 1993 to 11.8% in 1998 (Table AIV.1), well below the bound 1998 rates (Chart IV.5). However, the standard deviation, which measures tariff dispersion (and, hence, neutrality in the allocation of resources across sectors), has increased from around 13 to 24 percentage points over the same period. Overall, the manufacturing sector shows negative tariff escalation from raw materials to semi-processed products: the simple average MFN tariff is 19.4% for raw materials and 7.3% for semi-processed products. However, certain industries – such as non-metallic mineral products; textiles, clothing and leather industries; and wood and wood products – show substantial tariff escalation, with protection more than doubling from the first to the last stage of production (Chapter III (2)(ii)). These large differences in tariffs between different stages of processing are also indicative of distortions in resource allocation.

52. Other border measures include import quotas, but these affect only a small share of imports (below 1% of total merchandise imports and 12.7% of textile and clothing imports in 1996). The CUD obliged Turkey to introduce quotas on certain textiles and clothing products, and in 1998 they were distributed among 21 supplier countries, of which 15 were WTO Members. Import licensing only applies to few lines (just over 1%). However, a large number of anti-dumping measures are in force; between 1989 and 1997 final measures mainly affected textiles (25% of final measures), base metals and articles of base metal (20%) and plastics and rubber (14%).

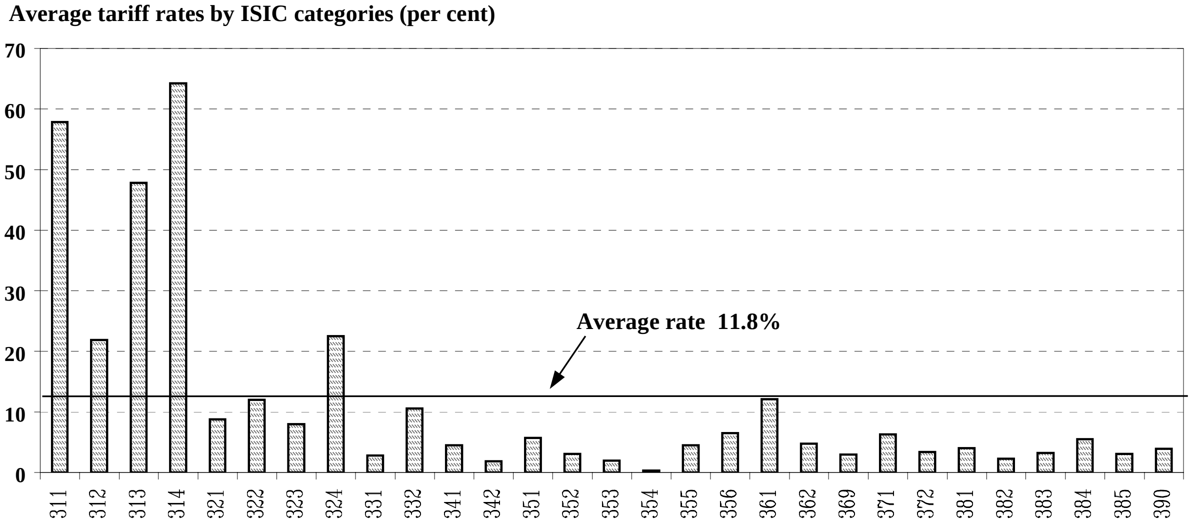
53. On internal measures, the Government maintains a system of generous and complex state aids to domestic producers, and the manufacturing sector is the major beneficiary. The total cost of the general investment aid programme and the export incentives amounted to some 2.3% of GDP in 1994 (latest available data). In 1997, 63% of the total investment incentive certificates were granted to investors in the manufacturing sector (a breakdown by realized investment is not available). Textiles and clothing, followed by chemicals, were the main industry recipients, accounting for more than a third and a tenth, respectively, of total manufacturing certificates. The manufacturing sector is also the main beneficiary of duty concessions for exports as well as export credits and guarantees (Chapter III(3)).

54. Price controls in certain sectors are intended to benefit the broad population. However, in the pharmaceutical industry these controls adversely affect the profitability of companies and may affect the availability of some items. Price controls in the food and tobacco industries have reduced trading opportunities for competitive foreign firms.

[23] Currently the MHF levy applies only to 514 fish and fishery products at the HS 12-digit level (Chapter III(2)(ii)).

[24] Turkey will maintain rates of protection above those specified in the CET for certain "sensitive" goods (Chapter III(2)(ii)).

Chart IV.4
Tariffs on manufactured products, 1998 (second half)



ISIC	Description	ISIC	Description	ISIC	Description
311-312	Food products	341	Paper products	369	Other non-metallic mineral products
313	Beverages	342	Printing and publishing	371	Iron and steel
314	Tobacco	351	Industrial chemicals	372	Non-ferrous metal
321	Textiles	352	Other chemical products	381	Fabricated metal products
322	Clothing	353	Petroleum refineries	382	Non-electrical machinery including computers
323	Leather products	354	Petroleum and coal products		
324	Footwear	355	Rubber products	383	Electrical machinery
331	Wood products	356	Plastic products	384	Transport equipment
332	Furnitures and fixtures	361	Pottery and china	385	Professional and scientific equipment
		362	Glass and glass products	390	Other manufactured products

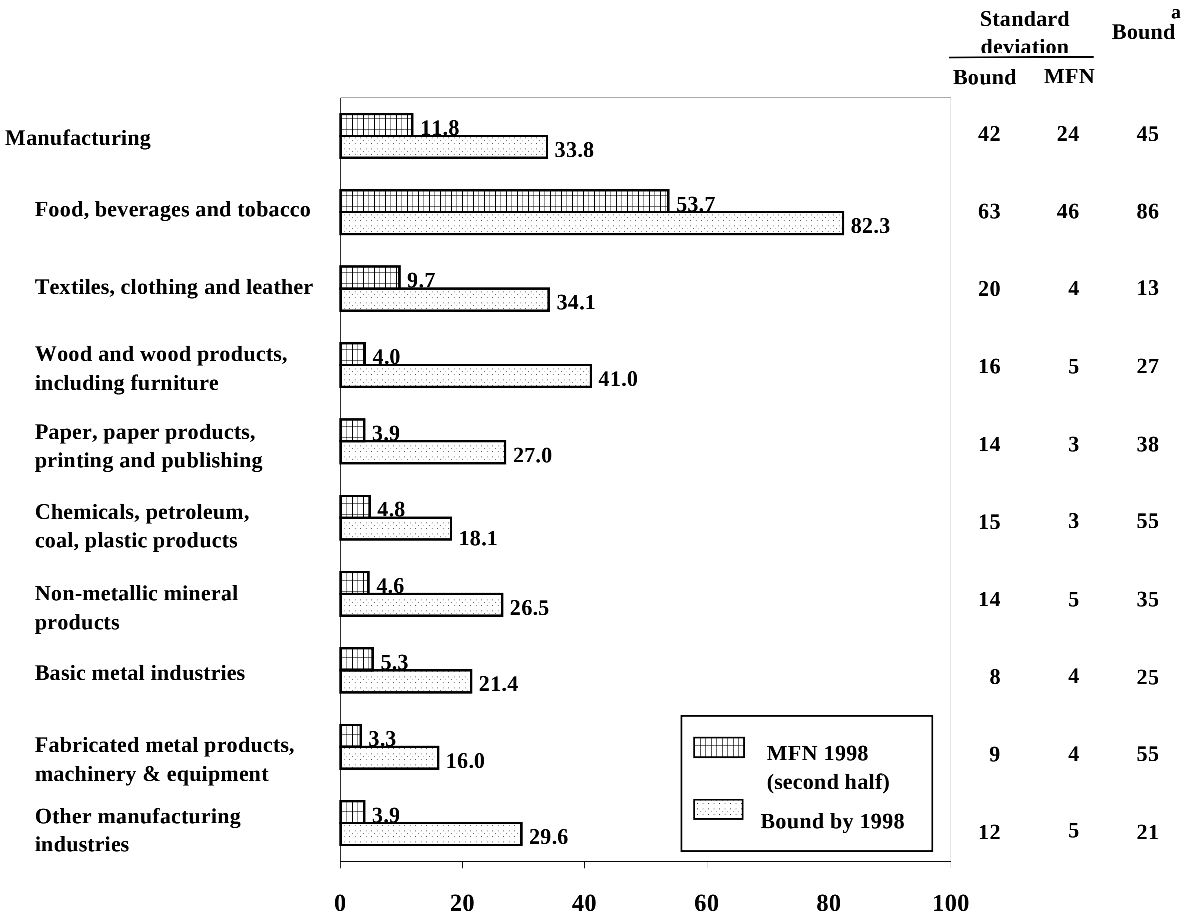
Note: Tariff averages (including Mass Housing Fund surcharge) include *ad valorem* equivalents of specific, alternate and formula duties, as available.

Source: WTO Secretariat calculations.

Chart IV.5

Average tariff levels and bindings in manufacturing, 1998

By ISIC category (per cent)



a Using the Uruguay Round definition of Agriculture (i.e. HS 01-24 less fish and fish products plus selected products) 100% of the tariff lines are bound.

Note: Tariff averages (including MHF levy) include *ad valorem* equivalents of specific, alternate and formula duties, as available. Applied tariffs include all tariff lines (i.e. bound and unbound lines). When only a few lines are bound and/or the applied tariffs of unbound products differ substantially from bound rates, caution needs to be exercised in comparing bound rates with applied rates.

Source: WTO Secretariat.

55. The level of foreign direct investment is well below Turkey's potential; investment in the manufacturing sector has been about US$400 milion per year, accounting for just over half of the inflows between 1993 and 1996. Data are not available on inflows by industry; however, annual data on approved permits indicate that inflows of foreign direct investment continue to be heavily concentrated in machinery and equipment (46% of total manufacturing permits), as well as in food, beverages and tobacco (16%). The likely reasons for the modest level of foreign direct investment are political uncertainties, macroeconomic instability (inflation and foreign exchange rate), and, possibly, government red tape.

(iii) Developments in selected industries[25]

(a) Textiles, clothing and leather

Introduction

56. The textile industry is Turkey's largest industry (Table IV.10). Altogether, textiles, clothing and leather (ISIC 32) account for some 17% of manufacturing value added and provide employment for about one third of all workers in the manufacturing sector. A key factor behind the sector's successful performance is Turkey's ample supply of home-grown cotton: Turkey is the world's sixth largest producer in raw cotton. Other factors behind its success are low wage costs and strong integration between the textiles and clothing industries.[26] In the past, the State played a significant role, but it now accounts for only a few percent of value added. Turkey also has substantial textile design capabilities.

57. Turkey's exports of textiles and clothing products have performed well, accounting for some 43% of total merchandise exports in 1997, and the composition of exports has progressively shifted towards higher-value-added finished products and ready-made clothing. The EU has traditionally been the largest foreign market for both textiles and clothing (Chart IV.6). However, hopes for a surge in demand following the lifting of quotas (see below) on Turkish textiles under the customs union were dampened by weak growth in demand in the European economies. Moreover, the EU continues to apply anti-dumping measures on certain Turkish textiles and clothing products (definitive anti-dumping duties on polyester fibres and yarns and provisional anti-dumping duties on unbleached grey cotton fabrics). Finally, the domestic currency may be somewhat overvalued, with consequential negative effects on exports. On the import side, trade in textiles and clothing is minor.

Domestic policies

58. The textiles, clothing, and leather industries do not enjoy any special sectoral incentives. However, these industries are major beneficiaries of the incentives provided under the general investment aid programme, such as exemption from customs duties, tax credits, corporate tax postponement, postponement of VAT, and VAT refunds from domestically produced capital goods and equipment. In 1997, investors in the textiles and clothing industries accounted for 23% of the investment incentive certificates (Chapter III(4)(ii)). Export credit and guarantee programmes (Chapter III(3)(xii)) are also among the more important incentives provided to investors.

59. The performance of the textiles and clothing industries have suffered, in the past few years, from volatile domestic prices for raw cotton. To counter this problem, the private sector is working with the Government to establish a futures market in an attempt to help stabilize prices on raw cotton. Another problem facing the industries, and many other sectors in Turkey, is the frequent power cuts. Moreover, the industries also suffer from high domestic prices for electricity compared with international tariffs (Turkish rates are three times the OECD average).[27]

[25] Details on food, beverages and tobacco manufacturing (ISIC 31) are provided in section (2) on agriculture.

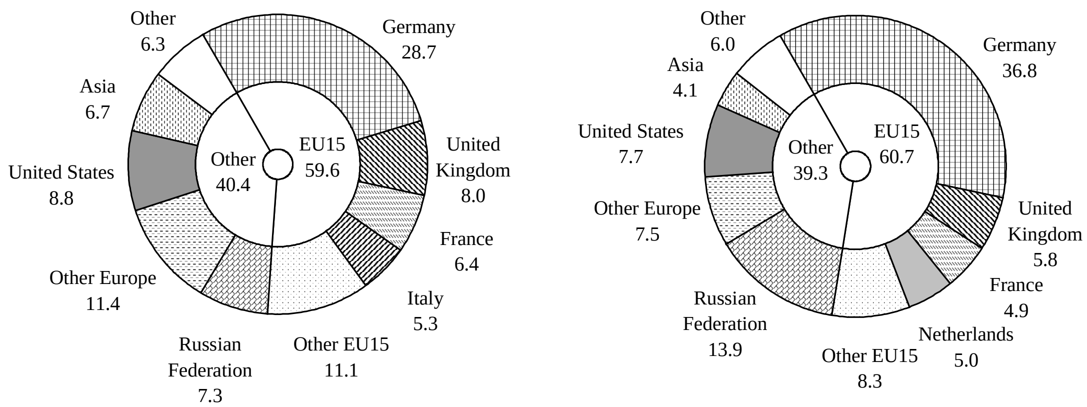
[26] Textiles Outlook International (1997).

[27] Textiles Outlook International (1997).

Chart IV.6
Exports of textiles, clothing and leather by destination, 1997

Per cent

(a) Textiles **(b) Other**



US$ 7.4 billion **US$ 3.0 billion**

Note: By ISIC category. Figures do not include "suit-case" trade. Clothing accounts for 88% of the category "Other".

Source: UNSD, Comtrade database.

Trade policies

60. Tariff protection for textiles, clothing and leather industries has traditionally been among the highest of the economy. However, Turkey has substantially lowered its customs duties on textiles, clothing and leather imports as a result of the CUD. The simple average MFN rate (including the MHS levy) has come down from 31.8% in 1993 to 9.7% in 1998 with a standard deviation of 4 percentage points for the industries as a whole, while the tariff reduction for individual sub-industries follows a similar pattern (Table AIV.1).

61. On the other hand, the industries are subject to strong tariff escalation, maintaining higher levels of effective protection to the industries than that reflected by the nominal rates (Chart IV.7). The increase in protection from the first to the final stage of production is more than double, and higher than under the 1993 tariff structure.

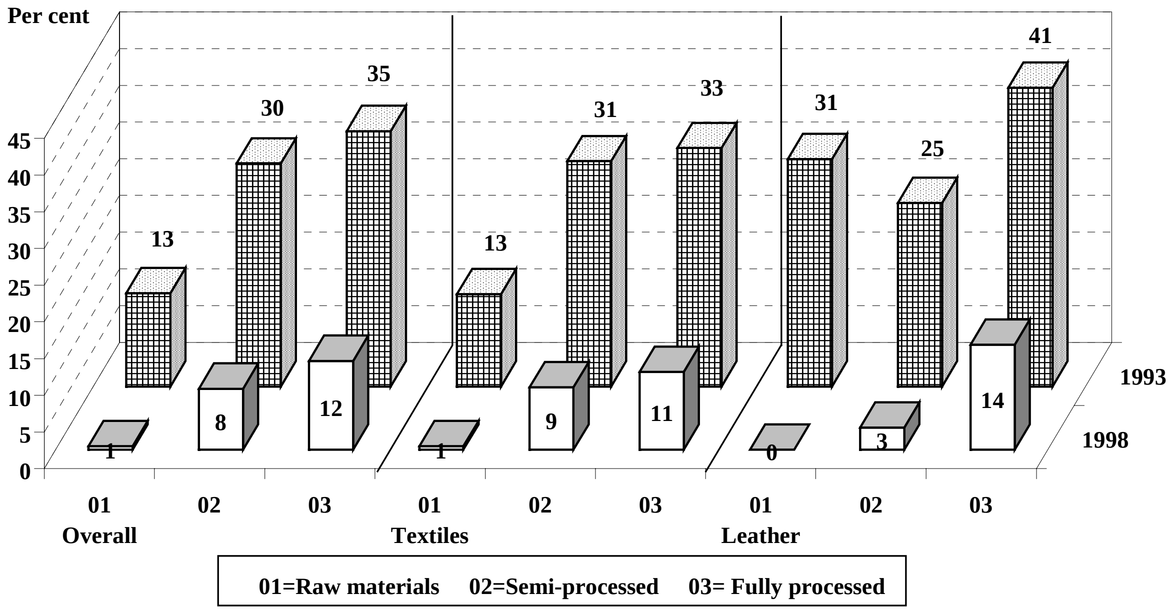
62. The CUD required that Turkey introduce import quotas on certain textiles and clothing products.[28] The quotas, which were not part of EU global quotas, were introduced under Article XXIV of GATT 1994. In 1998, quotas for a variety of products (equivalent to 1,044 items at the eight-digit level were distributed among 21 countries, of which 15 were WTO-Members (Table IV.11).[29] Within the WTO, some Members (Hong Kong, China; India and Thailand) have expressed concern that the restrictions are not consistent with Turkey's obligations under the GATT/WTO, and in February 1998

[28] In this context, Decree No. 95/6815 on Surveillance and Safeguard Measures on Imports of Certain Textile Products and Decree No. 95/6816 on Surveillance and Safeguard Measures on Imports of Textile Products from Certain Countries not Covered by Bilateral Agreements, Protocols or Other Arrangements and their implementing regulations have been published in the Official Journal on 1 June 1995 and repealed by the Regulations published in the Official Journal on 26 December 1997.

[29] The countries were: Argentina; Brazil; Hong Kong, China; India; Indonesia; Korea; Macao; Malaysia; Pakistan; Peru; Philippines; Singapore; Sri Lanka; Thailand; and Egypt.

India requested the establishment of a panel (Chapter II(3)(ii)).[30] As noted above, the amount of textiles and clothing imports is quite small (less than 6% of merchandise imports in 1997), but Turkey's customs union with the EU may be perceived as a trading opportunity by countries wishing to export to the EU, because once a good has been exported to Turkey it may be freely traded within the EU.

Chart IV.7
Tariff escalation in textiles, clothing and leather, 1998 (second half)



Note: Clothing (including footwear) consists entirely of fully-processed products.

Source: WTO Secretariat.

63. Turkey does not auction its quotas, which would transfer the economic "rent" gained by the quota holders to the Government as public revenues. Instead, the larger part of the quotas are distributed among firms that had exported the same category in the previous year (Box IV.1). The remaining quotas are allocated to firms that did not previously export that category of goods. The quota allocation licence may not be sold or transferred.

64. Under the WTO Agreement on Textiles and Clothing (ATC), which became effective on 1 January 1995, Turkey has submitted the list of products included in the first and second phases of integration into GATT 1994.[31] The list of the first phase of integration contains some 18% of the volume of imports in 1990, comprising 54 six-digit items.[32] The list of the second phase also covers some 18% of the volume of imports in 1990, including 23 categories of mostly tops and yarns (16.2% of volume imports), followed by fabrics (1.7%), clothing (0.08%) and made-up textiles products

[30] WTO documents WT/DS29/1, 15 February 1996; WT/DS34/1, 25 March 1996; WT/DS34/1, 26 June 1997; and WT/DS34/2, 2 February 1998.

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

[32] WTO document G/TMB/N/44, 28 April 1995.

(0.02%).[33] Furthermore, the products in category 124 were integrated into the GATT 1994 on 1 January 1998; this category represents 29.1% of 1990 imports by volume.[34] Turkey has retained its right to use the transitional safeguard mechanism under the provisions of the ATC (Article 6), but has not made use of this provision.[35]

Table IV.11
Allocation of textile and clothing quotas to WTO member countries, 1998

Country	Number of quota categories	Main fibre coverage
Argentina	3	C
Brazil	10	C, M,. W
Egypt	2	C
Hong Kong, China	19	C, M, W
India	14	C, M, W
Indonesia	19	C, M, W
Korea	4	C, M, W
Macao	10	C, M, W
Malaysia	15	C, M, W
Pakistan	2	C
Peru	12	C, M, W
Philippines	8	C, M, W
Singapore	39	C, M, W
Sri Lanka	20	C, M, W
Thailand	69	C, M, W, SBOV

Note: C denotes cotton; W denotes wool; M denotes man-made fibre; and SBOV denotes silk-blends and other vegetable fibres.

Source: Government of Turkey.

65. Traditionally, a substantial share of Turkey's textiles and clothing exports (51% in 1995) have been faced with quota restrictions. However, upon the entry-into-force of the CUD, the EU eliminated the quotas (the so-called "consultation levels") facing Turkish exporters; in consequence, the share of textiles and clothing exports still subject to quotas is estimated at less than 7%.[36] However, Turkey continues to face quotas in the United States' and Canadian markets for certain categories of textiles and clothing, regulated by bilateral agreements (Table AIV.3).

66. In its bilateral agreement with the United States, Turkey has agreed to limit its exports of underwear of cotton and man-made fibre fabrics. According to the agreement, a specific limit of 1,681,644 dozen was established for the period 28 March to 31 December 1995 (notional annual level of 2,200,000 dozen). From 1996 until the agreement expires on 27 March 1998, the annual growth was set at 6%.[37] The WTO Textiles Monitoring Body noted that the agreed specific limit was substantially above the rollback level (1,291,118 dozen) envisaged in Article 6(8).[38] In 1997, exports to the United States of several products were close to quota limits (Table AIV.3).

[33] WTO documents G/TMB/N/228, 12 February 1997 and G/TMB/N/2228/Add.1, 28 May 1997.
[34] WTO document G/TMB/N/240, 18 March 1997.
[35] WTO document G/TMB/N/18, 6 March 1995.
[36] Textiles Outlook International (1997).
[37] WTO documents G/TMB/7, 10 January 1996 and G/TMB/288, 22 July 1997.
[38] WTO document G/TMB/7, 10 January 1996.

Box IV.1: The quota distribution system

The distribution of quotas is based on two systems: past performance (PP) and free distribution (FD). The larger part of the quotas is distributed as PP among firms that exported within the category in the previous year. Firms that have not previously exported within the category or that have exported in the previous year (PP) but need more quota shares may apply for the FD quotas. These quotas are allocated at the beginning of each month and if the quota reserved for FD is not completely distributed then any firm can apply for a quota. The quota allocation licence may not be sold.

The system applies exclusive rules to "sensitive" categories, i.e. categories in which the quota level is below demand. The sensitive categories are announced at the beginning of each year; for 1998, sensitive categories are 338, 339, 638, 639S, 351, 361, and 410. Only manufacturer-exporters may apply for the FD allocation of sensitive categories. In order to apply, they must prove that they exported a certain part of their PP quota share.

One of the most important criteria for both PP and FD is the distinction between exporter firms and manufacturer-exporters. Exporter firms are allocated 40% of their previous year's exports, while manufacturer-exporters are allocated 80%, as the PP allocation. The firms have to prove their manufacturing capacity by means of a report to the Chamber of Commerce for the product for which they require quota. The manufacturer-exporters must also prove that they employ at least 15 persons and have contributed to the social security fund.

A firm has to fulfil the minimum unit price (MUP) condition to be eligible to apply for a quota allocation. The MUP is in force to encourage the exportation of high-quality value-added products. The MUPs are defined and announced at the beginning of each quota year for each category; MUPs differ by category, as well as for PP and the FD.

Source: Based on information provided by the Istanbul Textile and Apparel Exporters Association.

67. In its bilateral agreement with Canada, Turkey will limit its exports of trousers, shorts, overalls, underwear, bed sheets and pillowcases.[39] Quotas have been allocated mainly based on past performance.

(b) Pharmaceuticals

68. The pharmaceutical industry (ISIC 3522) has enjoyed high growth, with an average annual growth of 10% since 1990. Exports of pharmaceuticals have increased during the same period, now accounting for about 10% of chemicals manufacturing exports; antibiotics rank first among exported pharmaceuticals. However, import penetration is high (18.8%). The pharmaceutical industry in Turkey supplies about 86% of the total drug requirement. However, the number and volume of imported drugs continue to increase. These imported drugs consist of certain specific technology products such as vaccines, medicines for cancer, insulin, etc. Of the 160 companies active in the sector, 33 are partially or wholly owned by foreigners.

69. The customs union with EU has brought about the harmonization of related regulations for the sector. In this respect, the Ministry of Health has promulgated regulations on Good Manufacturing Practices, Good Clinical Practices, Good Laboratory Practices, Bioavailability/ Bioequivalence, Packaging/Labelling, Promotion/Advertising, Drug Research and Medicinal Product

[39] WTO document G/TMB/N/180, 12 January 1996.

Registration and Stability Requirements. Regulations on good distribution and storage practices are under preparation.

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

71. Border protection in the sector has fallen substantially since the previous Review. The simple average MFN tariff (including the Mass Housing Fund levy) on pharmaceuticals, covering some 573 lines at the 12-digit level, has dropped from 13.7% in 1993 to only 1.7% in 1998 (Table AIV.1).

72. The production and marketing of all pharmaceuticals must be authorized by the Ministry of Health, and pharmaceutical products and firms must be registered with the Ministry. Prices of all locally made products are subject to the approval of the Ministry of Health (Government Decree on Pharmaceutical Pricing No. 8845 of 1984). Prices are intended to ensure a reasonable rate of return to pharmaceutical firms, while bearing in mind the objective of keeping drugs available to the broad public. In order to set ex-factory prices, the Ministry determines the margins for wholesalers (9%) and retailers (25%). It also limits the profits of pharmaceuticals companies to 15% on a company basis and 20% on a product basis, and restricts promotional expenses to less than 5% of sales. In practice, pharmaceutical companies often discuss price increases among themselves and each company then applies to the Ministry for the agreed price increases for all its products.[40]

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

74. As noted earlier, in practice, the pricing policy may well discourage research and development as well as new investment in this sector, and may also limit the availability of some items.

75. Pharmaceuticals products and processes have been excluded from patent protection until 1 January 1999, in accordance with Turkey's commitments to the EU, but ahead of the time-schedule envisaged in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). At that date, Turkey will amend its patent law so as to provide product patent protection. According to Article 5 *bis*, Annex No. 8 of the EU-Turkey Association Council Decision, Turkey will adopt legislation or revise existing legislation to secure the patentability of pharmaceutical products and processes before 1 January 1999. For that reason, the Government issued a Decree and made an amendment to the existing Patent Protection Law on September 1995, and patent protection for pharmaceutical products and processes will be enforced in 1999.

[40] EIU (1997), EIU Views Wire, July (web-site: www.viewswire.com).

(c) Iron and steel basic industries

76. Turkey is the world's 15th largest iron and steel producer.[41] However, the iron and steel industries (ISIC 371) have grown more slowly than average manufacturing. Crude iron output increased from 4.9 million tonnes in 1991 to 5.3 million tonnes in 1996 and steel from 9.4 million tonnes to 13.4 million tonnes. Exports of iron and steel, which accounted for 9.2% of Turkey's merchandise exports in 1997, have fallen in recent years.

77. The iron and steel industries have been exposed to moderate border protection compared to the manufacturing sector as a whole. In 1993, the simple average MFN tariff (including the MHF levy) was 17.9% for iron and steel products compared to 26.7% for the manufacturing sector, while in 1998 the corresponding numbers are 6.3% and 11.8% (Table AIV.1). However, tariff rates continue to rise with the level of processing. The average 1998 MFN tariff rate on semi-processed products is as much as seven times more than the rate on raw material imports. This reflects the high dependence of the industries on imports of scrap, which is imported duty free.

78. In July 1996, Turkey signed an agreement with the European Coal and Steel Communities (ECSC) to abolish customs duties on mutual steel trade. In accordance with the agreement, free-trade between EU/EFTA and Turkey applies to the majority of iron and steel products (509 items at the twelve-digit level). Customs duties on the remaining 142 products (long products and special steels produced in Turkey) will gradually be abolished by the end of 1998.

79. The iron and steel industries do not enjoy any special industry incentives. The industries account for a relatively small share (3.1% in 1997) of investment incentive certificates issued under the general investment aid programme (Chapter III(4)(ii)). Iron and steel manufactures accounted for 9% of Türk Eximbank's credits in 1997.

80. The public sector accounts for about 27% (1995) of value added in the iron and steel subsector. Of the three SEEs active in the iron and steel sector at the time of the previous Review, the oldest, in Karabuk, which produced some two thirds of SEE output, was sold to its employees in 1995 for the symbolic price of TL 1. The SEE in Eregli is slated for privatization in 1998; a tender for the flat-steel producer had to be cancelled when it failed to attract satisfactory bids. Alongside the two SEEs, some 20 smaller private firms are active in the sector.

(d) Motor vehicle manufacturing

81. The Turkish motor vehicle manufacturing industry (ISIC 3843) has undergone substantial restructuring in recent years, partly as a result of the reduction in import taxes (Table IV.12). The reduction in border protection as a result of the agreement with the EU has led to a surge in imports. Imports of motor vehicles increased by 181% to 125,025 units in 1997, compared to 1996, while sales of locally manufactured cars only increased by some 21% to 219,810 units in the same year. Nevertheless, the domestic industry, which is still heavily dependent on imported designs and some components, is predicted to enjoy significant growth in the near future. The number of vehicles in Turkey per 1,000 persons is only 50, while the world-wide average is 86 and in the EU it is 350-400.

82. Overall, the Turkish motor vehicle industry consists of 19 assemblers and manufactures (of which 12 are foreign-owned or joint ventures) operating under licences, and some 500 component suppliers. In the commercial vehicles sector there are 12 companies operating under licence with foreign manufacturers. The capacity is quite small at some 200,000 vehicles per year. Ford (joint venture with Koc Com) is the largest. However, the passenger car industry is much larger and

[41] EIU (1998), EIU Views Wire, April (web-site: www.viewswire.com).

expanding. For many years, the United States was the only supplier to the Turkish passenger car market. Gradually European vehicles expanded their presence with the introduction of locally produced models by Renault (in a joint venture with Oyak) and Fiat (in a joint-venture with Koc Com); these now account for about 84% of car output.[42] Today, as the primary producers in the Turkish market, Renault and Fiat dominate the market for imported parts through joint-venture partnerships and licensed production, while other foreign companies now include Opel (100% foreign capital), Toyota (joint venture with Sabanci Com.) and Ford (joint venture with Koc Com). Honda, in a joint venture with Anadolu, and Hyundai, in a joint venture with Kibar, recently began production. Two other Asian manufactures, Kia and Daewoo, are currently planning factories in Turkey to take advantage of Turkey's relatively low labour costs and unimpeded access to the EU automotive market.[43] However, most production is expected to remain closely linked to sales on the domestic market.

Table IV.12
Main policies in Turkish motor vehicle manufacturing sector, 1993 and 1998

Area	1993	1998
Customs duties	Above average for manufacturing industry[a]	Below average for manufacturing industry[a]
Import licensing	Certificate issued by Ministry of Industry and Trade required for most items	No changes
Incentives (GIAP)[b]	Plants with a minimum of 100,000 cars enjoyed 100% tax credits (investment allowance)	No special treatment
Export incentives	Deduction of certain amount of export revenue from taxable corporate income	No special treatment
Domestic taxes	VAT of 23%. In addition, motor vehicles purchasing tax (MVPT) levied at specific rates, depending on weight, type, model and engine capacity. Also supplementary MVPT of 12% and environmental fund tax of 25% of MVPT.	VAT of 23% or 40%, depending on the type of engine. In addition, MVPT levied at specific rates, depending on weight, type, model and cylinder capacity. Also, supplementary MVPT of 12, 18 and 24%, depending on the capacity of the engine, environmental fund tax of 25% of MVPT.

a See table IV.13 for details.
b General Investment Aid Programme.

Source: GATT (1994), Trade Policy Review – Turkey; and information provided by the Government of Turkey.

83. The motor vehicle manufacturing industry, which traditionally enjoyed higher than average manufacturing tariffs, has been exposed to greater competition in recent years. As a result of the introduction of the EU CET as of 1 January 1996, border protection has dropped sharply. For example, tariffs on passenger cars have decreased from 58% (transport of less than ten people) or 48.6% (ten or more people) in 1993 to 13.9 and 18%, respectively, in 1998 (Table IV.13). However, cars with an engine capacity of less than 2000cc. will continue to receive tariff protection above the CET level until 1 January 2001.

84. Other border measures include an import licensing system. Most motor vehicles (six items at the four-digit level) may only be imported against a *pro forma* invoice certified by the Ministry of Industry and Commerce (Table IV.14).[44] As noted by the authorities, these restrictions are to assure the suitability of imported vehicles for highways.

[42] EIU (1996), EIU Views Wire, December (web-site: www.viewswire.com).
[43] EIU (1998), EIU Views Wire, March (web-site: www.viewswire.com).
[44] The procedure is laid out in Communiqué No. 8 of 1996, published in Official Gazette No. 22510 on 31 December 1995.

Table IV.13
Selected average MFN tariffs in the motor vehicle manufacturing industry, 1993 and 1998
(Per cent)

Item	HS-item	1993	1998 (second half)
Cars and vehicles:			
Motor vehicles for transport of ten or more persons	8702	48.6 (6.9)	18.0 (4.2)
Other motor vehicles for transport of persons	8703	58.0 (22.3)	13.9 (7.5)
Motor vehicles for transport of goods	8704	43.7 (13.3)	15.0 (9.1)
Chassis fitted with engine	8706	31.0 (0.0)	10.4 (5.3)
Bodies	8707	30.0 (0.0)	5.2 (0.2)
Parts and accessories	8708	29.4 (5.0)	4.3 (0.7)
Engines:			
Spark-ignition reciprocating or rotary internal combustion piston engines	8407	27.2 (0.0)	3.7 (0.7)
Compression-ignition internal combustion piston engines	8408	27.2 (0.0)	4.5 (0.6)
Engine parts for ignition	8409	10.8 (6.1)	2.9 (0.7)
Memo: Average manufacturing MFN tariff (ISIC 3)		26.6 (12.9)	11.8 (23.6)

Note: Standard deviation is provided in parenthesis. The tariff averages (including MHF levy) include *ad valorem* equivalents of specific, alternate and formula duties, as available.

Source: WTO Secretariat.

Table IV.14
Motor vehicles subject to import licensing, 1993 and 1998

Item	HS code	Status	
		1993	1998
Road tractors of semi-trailers	8701.20	Required	Required
Other	8701.90[a]	Required	Required
Motor vehicles for the transport of ten or more persons	8702	Required	Required
Other motor vehicles for transport of persons	8703	Required	Required
Motor vehicles for transport of goods	8704	Required	Required
Special purposes motor vehicles, other than those principally designed for the transport of persons or goods[b]	8705	Not required	Required
Trailers and semi-trailers; other vehicles not mechanically propelled; parts thereof	8716	Required	Required

a Except 8701.90.00.11.19
b For example, breakdown lorries, crane lorries, fire-fighting vehicles, concrete-mixer lorries, road sweeper lorries, spraying lorries, mobile workshops, and mobile radiological units.

Source: Government of Turkey.

85. In addition to customs duties, vehicles sold on the domestic market, either through importers or domestic producers, are subject to high domestic taxes. Vehicles are subject to the highest of the five VAT rates (23 or 40%, depending on the type of engine). Moreover, the vehicles are subject to a motor vehicles purchasing tax (MVPT), levied at a wide range of specific rates, depending on weight, type, model year and cylinder capacity and for which the *ad valorem* equivalent is not available. An environmental fund tax, at 25% of the MVPT, is also collected, to finance environment-related projects.

86. Automobile manufacturers are not granted any sector-specific incentives; however, as for all investors, they have access to those offered within the framework of the general investment aid programme (Chapter III(4)(ii)) and the export incentive programme (Chapter III(3)(xii)). They are not regarded as a "priority" sector under the general investment aid programme, which would have

qualified the sector for enhanced incentives. Automobile plants producing a minimum of 100,000 cars a year benefit from 100% tax credits, allowing investment to be deducted from the tax base.[45]

87. Although not legally required, foreign companies setting up a joint venture in the automobile sector typically agree to incorporate a certain share of local content in their production. For example, in the case of the 50-50 joint venture between Honda and Anadolu - which will initially produce 30,000 Civic cars - the proportion of Turkish-made parts used at the US$50 million factory was initially set at 31% but should rise to around 70%.[46] In the case of Hyundai, which has a 50-50 joint venture with Kibar, the local content is set at 35% during the first five years, but will increase over the years to a level of 70%.[47] The Turkish authorities have not notified these arrangements to the WTO as trade-related investment measures.

(5) SERVICES

88. In 1996, the services sector contributed 49% of GDP, employed about one third of the labour force, and accounted for 47% of the export earnings (Chapter I). Its expansion in recent years has been driven mainly by transport and communications; commerce; and business and personnel services. Turkey has a substantial surplus on its foreign services trade, amounting to almost US$7 billion (equivalent to 4% of GDP) in 1996; in this respect, tourism is a major net foreign exchange earner.

89. State involvement in several services areas is significant, and some sensitive sectors remain closed for foreign investors. Business in certain sectors, particularly finance and banking, must obtain special government permission before commencing operations in Turkey. In the telecommunications sector, the Government owns the monopoly provider of basic services but is in the process of divesting up to 49% of its shares. In the meantime, the granting of licences to private operators in value-added services has been marred by disputes for several years. Five ports have so far been privatized (foreign equity up to 49% is allowed), but the main ports are still owned and operated by state-economic enterprises. In maritime transportation, cabotage is reserved for national flag carriers. Registration of commercial ships is granted only to locally incorporated companies whose management is under the control of Turkish citizens and the majority of whose voting shares are owned by Turkish citizens. In the area of air services, the privatization (divestiture of up to 49% of equity) of the state economic enterprise with a monopoly on international air routes has shown slow progress.

(i) Commitments under the General Agreement on Trade in Services (GATS)

90. Turkey actively participated in the Uruguay Round services negotiations and its Schedule provides for specific commitments in 72 activities (compared with an average of 23 for developing countries) out of a total of 161.[48] Since the conclusion of the round, Turkey has become a party to the Interim Agreement on Financial Services reached in 1995, the 1997 Agreement on Telecommunication Services, the 1997 Information Technology Agreement (ITA), and the 1997 Agreement on Financial Services. Table AIV.4 contains a summary of Turkey's specific services

[45] GATT (1994b), Trade Policy Review - Turkey, Geneva.

[46] EIU (1998).

[47] Istanbul Chamber of Commerce (1997).

[48] GATT (1994a). The WTO secretariat has divided these activities into 12 sectors: business services; communication services; construction and related services; distribution services; educational services; environmental services; financial services; health-related and social services; tourism and travel-related services; recreational, cultural and sporting services; transport services; and other services not included elsewhere.

commitments, excluding the 1997 Financial Services Agreement which has not yet entered into force (a protocol is open for acceptance until 29 January 1999 and will enter into force on 1 March 1999 at the latest). Turkey has listed MFN exemptions under Article II of the GATS, reserving the right to offer more favourable treatment to some WTO Members applying to all sectors and in some specific areas of business, communication, financial, and transport services (Table AIV.5).

91. The extent of Turkey's commitments vary across sectors with certain restrictions on market access and national treatment in cross-border supply, consumption abroad, and presence of commercial and natural persons. In general, these commitments (excluding ITA) bind the existing policy framework. However, in the area of foreign direct investment, the Government has autonomously undertaken greater liberalization than is reflected in its Schedule of specific commitments; according to the Schedule, foreign investment above US$150 million requires the approval by the Council of Ministers but this requirement was removed in July 1995. In the context of the ITA, zero rates by year 2000 will apply to 358 tariff lines at the eight-digit level in the area of computers, telecommunications equipment, semiconductors, semiconductors manufacturing equipment, software, and scientific instruments. Details on Turkey's tariffs on IT products are provided in Chapter III(2)(ii)(f). The major commitments made by Turkey under the 1997 Financial Services Agreement include: the abolition of the previous requirement to obtain permission for acquiring 5% or more of the capital of already established intermediary securities institutions; allowing actuaries of all nationalities to operate in services auxiliary to insurance; and no limitations on market access for direct life insurance. Although, not included in its MFN schedule, actuaries may act in Turkey on the basis of reciprocity, provided they have at least three years of experience in their country of origin and at least one year experience in Turkey. To operate in Turkey, it is essential that they are a member of a professional organization in the country where they operate.

92. The services sector is not included in the customs union agreement between Turkey and the EU. However, a working group covering services has been set up with the aim of harmonizing policies with those of the EU. Exploratory talks between the Commission and the Turkish authorities were held in March 1998, but were subsequently suspended.

(ii) Financial services

(a) Banking

93. By the end of 1997, Turkey's banking system (investment and development banks, state banks, private domestic commercial banks and foreign banks) comprised 72 banks, employed 152,512 workers and had assets of some US$95 billion. All banks operating in Turkey are universal banks, allowed to operate in almost all types of financial activities, including underwriting, and managing mutual funds. They do not face any effective competition from other financial institutions; most insurance and leasing companies are affiliated to and/or owned by banks.

94. The seven state banks (four public banks and three investment and development banks) play an important but decreasing role, accounting for about 39% of total bank assets at the end of 1997, down from 43% a year earlier.[49] Investment and development banks do not take deposits, but rely heavily on borrowed funds (47% of total liabilities including interbank deposits in 1997); they manage only a small share of total bank assets (less than 5% at the end of 1997). The state banks take on large amounts of preferential lending, channelling funds to government selected sectors of the economy: agriculture (T.C. Ziraat Bank); and small business, and young and women entrepreneurs

[49] These sums exclude the Excluding Etibank, which was privatized in March 1998.

activities (T. Halk Bank).[50] By the end of 1997, preferential lending represented 56% of total state banks loans; losses associated with subsidized lending have been ample (Box IV.2).

95. Private domestic banks account for about half of total bank assets (54% at the end of 1997). Almost all of these banks are owned by families or industrial groups, as legislation in Turkey does not require a separation of banking and non-banking companies. The IMF notes that this cross-ownership of private banks with industrial enterprises may obstruct prudential supervision: regardless of creditworthiness there is risk of pressures on bank management to grant credit to associated enterprises without the normal risk appraisal.[51] Foreign banks (19 at the end of 1997) manage only about 6% of bank assets and deposits (excluding interbank deposits). Foreign banks have typically specialized in foreign-trade related operations.

96. According to Article 49 of the Banks Act, banks may not engage in purchase and sale of commodities for commercial purposes (excluding trade of minted and ingot gold). Thus, commercial banks are not allowed to engage in trading goods or immoveables for commercial purposes, nor directly in leasing. On the other hand, investment and development banks may not accept deposits but they may engage in trading goods or immoveables for commercial purpose, and in leasing. Following the release of the Capital Market Board's regulations in August 1996, banks have been allowed to engage in equity intermediation through their subsidiaries.

[50] The term preferential lending is here used for lending below-market interest rates. As noted by the authorities the T. Emlak Bank discontinued in 1988 its concessional credit programmes for housing and property development.

[51] IMF (1996).

Box IV.2 Preferential lending through the state banks

According to the establishment law of the state banks, the Government may direct preferential loans to agriculture, housing and property development, small-scale business, and young and women entrepreneurs activities. However, the housing and property segment has de facto not benefited from preferential lending since 1988 when the T. Emlak Bank discontinued its programme. By the end of 1997, preferential lending accounted for 56% of the total state bank loans. The losses associated with the preferential loans have been running at about 1% of GNP over the past two years.

	Nominal interest rate (%)	Total lending (billion TL) End Oct. 1997	Expected loss (billion TL) End of 1996	End of 1996
Agriculture	50, 57, 60	130,571	90,500	128,300
Young and women	40	9,693	4,800	6,700
Small-scale business	59, 70, 76	428,000	68,000	121,063
Total		568,264	163,300	256,063
Total/GNP (%)			1.1	0.9

The T. C. Ziraat Bank provides preferential lending to the agricultural sector. The interest rates are fixed by the Board of Directors of the bank. The T. Halk Bank opens credits lines to small-scale business, and young and women entrepreneurs. The interest rates are fixed by various decrees of the Council of Ministers.

The amount and sectoral allocation of preferential lending are approved by the High Board of Credits, responsible for the arrangements of the preferential lending. The Prime Minister or an authorized Minister is the President of the Board. The Board consists of representatives of the following authorities: the related ministries, the Undersecretariat of Treasury, the Undersecretariat of Foreign Trade, the Undersecretariat of State Planning Organisation, the Central Bank, and the Bank's board of directors.

Source: Government of Turkey.

Regulation and prudential supervision

97. The Central Bank of the Republic of Turkey (CBRT) - the sole regulator of the volume and circulation of the Turkish lira - is responsible for setting liquidity requirements, supervising banks, monitoring compliance with reserve requirements, managing reserves, acting in the Turkish lira and foreign exchange interbank markets to sustain stability, setting the monetary programme, and carrying out open-market operations to fulfil monetary objectives. It is also responsible for centralized risk evaluation, in particular, the setting of prudential regulations.[52] The Central Bank's objectives are determined through consultation with the Undersecretariat of Treasury. Of the share capital, 51% is owned by the State. Consequently, its board is government-appointed, and its operations are strongly linked with government policies.[53]

98. Following the mini-crisis of early 1994, legislative reforms were introduced in June 1994, which involved: (i) an increase in the minimum paid-up capital required to open a bank (to TL 1 trillion); (ii) a tightening of limits on credits extended to related parties, equity participation in non-financial institutions and real estate investments; (iii) stronger disclosure requirements; and (iv) balance sheets and profit and loss statements of credit-customers whose credits exceed TL 85 billion need to be approved by a chartered public accountant for conformity with the

[52] The Banks Association of Turkey (1995).
[53] Bloomsbury (1997).

generally accepted accounting principles for statements of accountant. Changes to the banking law since then include an increase in the minimum paid-up capital to TL 6 trillion.

99. In February 1995, the definition of capital to asset ratios were changed in terms of risk-weighted assets, in conformity with international standards. The net open position in foreign currency a bank may hold were limited to no more than 50% of its net worth; the new limit exceeds the EU standard, which ranges between 20% and 40%. Exchange rate indexed assets and liabilities carrying a 50% weight and five investment banks (three of which are state-owned) are exempt from this regulation.

100. Banks established in Turkey are subject to Banking Law No. 3182 of 1985 and the provisions of other laws pertaining to banks. The establishment of a bank in Turkey or the opening of the first branch by a bank founded in a foreign country requires the authorization of the Council of Ministers. Banks must be joint-stock corporations with a minimum paid-up capital of TL 6 trillion (equivalent to about US$29 million at end-1997). Moreover, their shares have to be registered, issued against cash subscriptions and quoted on the stock exchange, each share having a nominal value not exceeding TL 1 billion. Banks' articles of association must conform to the provisions of the Banking Law.[54]

101. The establishment of up to ten new branches per calendar year is unrestricted for banks that meet the standard ratios laid down in Article 56 of the Banking Law[55], while the establishment of more than ten branches during a calendar year requires the approval of the Undersecretariat of Treasury. Procedures and principles for permission to open branches are determined in a regulation to be laid down by the Undersecretariat.

102. Foreign banks can operate in Turkey either by establishing a branch, a subsidiary or by going into a joint venture with a bank established or about to be established. The first branch of a foreign banks requires the approval of the Council of Ministries. A foreign bank may open up to ten branch offices per calendar year, while the opening of more than ten branches is subject to the permission of the Undersecretariat of Treasury. The minimum capital required for foreign banks is the same (TL 6 trillion) as for domestic banks. A reciprocity provision is in force with respect to the operation of foreign banks, allowing the Council of Ministers to take counter measures if the conditions in any of the countries in which Turkish banks operate are changed unfavourably.[56] According to the Banks Act, lending limits for the branches of foreign banks are based on branch capital rather than world-wide capital.

103. Although off-shore banking is allowed, no off-shore bank is currently operating. The only off-shore banking zone, which has existed since 1990, is located in Istanbul. The main advantages offered are that the minimum capital requirement (US$1 million) is lower than for other banks and the banks are exempted from tax and other duties, as prescribed in the Free Zones Act. These banks are

[54] Founders of banks should not have been bankrupt or entered into competition with their creditors or been sentenced for imprisonment to more than five years, even if they have been pardoned, excluding for negligent offences, or been sentenced for felonies such as embezzlement, extortion, bribery, theft, swindling, forgery, breach of trust or forget bankruptcy, and smuggling offences other than smuggling for their own consumption, and treachery in public bid tenders and purchases, disclosure of secrets of the state, tax evasion or attempts to evade tax.

[55] The Undersecretariat of Treasury should be informed no later than 30 days prior to the date of opening.

[56] If a country imposes laws on Turkish banks that are more restricted than (or subsequently aggravate) the conditions applied to that country's bank operating in Turkey, the Council of Ministers may demand that the relevant foreign bank fulfill similar conditions.

also exempt from all provisions of the Banking Act and other regulations such as reserve requirements. On the other hand, they are not allowed to collect funds from residents.

Reserve and liquidity requirements

104. Banks operating in Turkey are subject to reserve and liquidity requirements on their deposits and non-deposit liabilities. The reserve requirements are 8% for Turkish lira deposits and 11% for foreign currency deposits; there is no reserve requirement for gold stock accounts. Domestic interbank deposits and certain treasury deposits are exempted from the reserve requirement. The liquidity requirement is 14% on non-deposit liabilities (8% through free deposits and 6% through government paper), as well as on non-deposit foreign exchange liabilities (11% through free deposits and 3% through government papers).

105. As banks are required to hold unremunerated reserves at the CBT and to hold shares of their liabilities in indexed government securities, these regulations impose costs on the banks that act as a tax on financial intermediation; this is reflected by a relatively wide spread between borrowing and lending rates.[57]

106. The statutory limit on Central Bank short-term advances to the Treasury in 1996 was an amount not to exceed 10% of excess amount of the current year's total budgetary appropriations. This ratio was reduced to 6% in 1997 and in 1998, the limit was due to be reduced further to 3% (see also Chapter I). The interest rate to be applied to this advance account shall be determined by the Prime Ministry and the Bank each year. These measures should enable a more effective monetary policy.[58]

Challenges

107. Several areas of Turkey's banking sector represent challenges for the authorities. The IMF Executive Board, in the Article IV consultation on Turkey on 9 July 1997 noted that the low earnings, capitalization and the liquidity of the state banks required immediate attention.[59] The Turkish authorities were urged to strengthen banking sector supervision and accounting standards and to end the preferential lending of state banks to favoured sectors, a practice that introduces distortions and undermines the stability of the banking sector as a whole.

108. There are several additional challenges in the area of regulation. First, as stipulated in the Banking Act, the Government does not disclose when it assists banks in trouble. Funding provided through the Deposit Insurance Fund is of as much as TL 213 trillion (or US$1 billion at end-1997). According to the authorities, the fund supports banks under privatization, by providing them with low interest rate deposits. Second, at the time of the mini-crisis in 1994, government deposit guarantees (100% of all the saving deposits) were introduced as a "temporary" measure. This measure may enable shaky banks to attract cheap deposits. The variation in deposit rates would probably widen considerably if the guarantee were lifted, threatening the viability of some banks.[60] The authorities indicated that studies are under way with a view to decreasing the coverage of the full insurance system. Finally, as Turkey's largest banks all belong to powerful industrial holding companies, there

[57] IMF (1996).

[58] Law No. 3985 of 21 April 1994 amended Article 50 of Law No. 1211 of the CBRT, which regulates the account of short-term advances to the Treasury (Gökbudak, 1996).

[59] IMF, Press Information Notice No. 97/17.

[60] Financial Times (1997), 12 December.

is a close relationship between owners and borrowers, thus credits may be granted without regard to the degree of creditworthiness that might be required of other borrowers.[61]

(b) Securities

109. The Istanbul Stock Exchange (ISE), the only stock exchange in Turkey, was established to provide trading in equities, bonds and bills, revenue-sharing certificates, private sector bonds, real-estate certificates and foreign securities. The ISE operates nationwide and is an autonomous, semi-public organization. The fully computerized trading system of the stock market, which was inaugurated in November 1994, enables trading in stocks and rights coupons. Margin trading, short-selling, securities lending and borrowing have been regulated by the Capital Market Board (CMB). Authorized ISE members are entitled to engage in short-selling transactions in stocks constituting the ISE National-100 Index. The bonds and bills market of the ISE provides a trading environment for government bonds, treasury bills, revenue-sharing certificates, bonds issued by the Privitization Administration and real-estate certificates. Striving to offer an international platform for investors as well as issuers, the ISE International Free Zone provides an opportunity for foreign securities to be traded in a tax-free environment. It is a depositary receipts market where currently only one bank trades, in depositary receipts (Kazkommertsbank of Kazakhstan) and Turkish Eurobonds are traded.

110. Many new financial institutions and instruments such as investment trust, mutual funds, rating agencies, portfolio management corporations, repo's/reverse repo's, asset-backed securities, margin trading and short selling have been introduced in the last ten years. Studies to establish a futures exchange specialized on commodities are about to be completed and the exchange is expected to start its operation as soon as an amendment in Capital Market Law has entered into force.

111. The legal framework for the capital markets are laid out in the Capital Market Law of 1981 (most recently amended in May 1992). The CMB, which was established in 1982, has the authority to regulate primary and secondary markets in securities, supervise securities intermediaries and mutual funds, and register all public offerings of securities (except government paper). In addition, it has authority to determine the main aspects of the securities to be issued by the private sector.

112. Regulations related to the re-opening of the ISE were approved by the CMB in December 1985, and the ISE commenced operation in 1986. Measures to strengthen the powers of the CMB and bring the regulatory structure more closely into the line with EU practices were incorporated in a Decree Law issued in June 1995, but this law was annulled on procedural grounds by the Constitutional Court in November the same year.[62]

113. The opening up of the securities markets to foreign investors in August 1989 provided a major boost to the development of capital markets (Box IV.3). Another contributing factor is the investor-friendly tax regime for securities purchased by foreign investors; except when foreign investors wish to exercise voting rights, there are no capital gains or dividends taxes on investments by institutions, provided at least 25% of the funds allocated to Turkey is invested in equities and the institution is a properly established financial institution.[63] New securities issues registered with the CMB more than doubled (in U.S. dollar terms) in 1990, as did trading volumes in secondary markets. The number of companies whose shares are traded in the ISE increased from 110 at the end of 1990 to 266 at the end of May 1998, while total market capitalization of traded companies also rose

[61] However, a bank may not extend to a natural or legal person credits exceeding 20% of its own funds in any form (cash, properties, bail bonds and guarantees) and may not accept endorsement or bail bonds or purchase securities than stocks.
[62] IMF (1996).
[63] Bloomsbury (1997).

considerably over the same period from US$19 billion to US$58 billion. In parallel to the market upsurge, the yearly total traded value in the stock market increased to US$58 billion in 1997 from US$6 billion in 1990. The yearly total traded value in the bonds and bills market also increased significantly, to US$410 billion in 1997. Foreign fund managers' share of the free float has substantially increased in recent years, from 20% in 1993 to currently some 52%, equivalent to US$6 billion.

114. The markets in private securities have been constrained by the heavy financing needs of the public sector. Indeed, government paper (mainly T-bills) accounted for 97% of new issues of securities in 1996 (up from 90% in 1994-95) and for some 94% of the trading volume in the secondary market.[64] The stock of government securities was equivalent to some 48% of broad money (M2X) at end-1995.[65] Domestic banks are captive buyers of treasury bills, being required to hold bills as a fixed share of 6% and 3% of their Turkish Lira and foreign exchange deposit base, respectively. Given the dominant position of government paper in the financial markets, markets for corporate debt instruments remain underdeveloped, forcing companies to rely heavily on bank financing for their funding.

Box IV.3: Limitations on market access in the securities sector

Permission of the Capital Market Board is required for the establishment of capital market institutions (such as securities intermediary institutions, investment trusts, mutual funds, portfolio management companies and rating and auditing institutions). If banks or insurance companies apply to the Board to form a mutual fund or to increase fund capital or to issue securities, the opinion of the Undersecretariat of Treasury has to be obtained to finalize the applications. Establishment of branches and agencies by securities intermediary institutions established in Turkey also requires the Board's permission. The permission of the Board is required for one shareholder (natural or legal person) to obtain 5% or more of the capital of already established securities intermediary institutions. The Board shall also be informed of the transfers of shares representing less than 5% of the capital of intermediary institutions.

Intermediary institutions, investment trusts, portfolio management companies and rating agencies may only be established in the form of joint-stock companies. Foreign intermediary institutions may establish liaison offices in Turkey, but may not establish branches to carry out intermediary activities. However, foreigners can participate in domestic intermediary institutions or acquire the majority of shares. International rating agencies can operate in Turkey with the approval of the Capital Market Board.

Source: Government of Turkey.

(c) Insurance

115. The Turkish insurance market consists of re-insurance companies, insurance companies, and insurance intermediaries (such as brokers and agencies). By the end of 1997, there were 60 insurance and four re-insurance companies operating in Turkey. According to field of operation, 19 insurance companies were in life and 41 in non-life groups (17 of these companies were operating as composite companies). According to ownership, three insurance companies were state-owned, 45 private, while 10 were foreign owned with two other insurance companies operating as branches of foreign insurance companies. In total, there were 10,723 insurance agencies in operation at the end of 1996, excluding bank branch offices marketing insurance policies. Insurance and re-insurance companies have a total of 6,578 employees.

[64] In this context, it is interesting to note that T-bills are exempted from the financial transaction tax.
[65] IMF (1996).

116. The market is dominated by a few large companies of which three represent approximately one third of the market. The relatively high degree of concentration is exacerbated by cross-ownership through holding companies. Foreign companies, which are much smaller than domestic companies, account for about 8% of total premiums.

117. Regulations governing operations of insurance companies are laid down by the Undersecretariat of Treasury, and on-site supervision is carried out by the Insurance Supervisory Board. The Insurance Supervision Law No. 7397 (as amended by Statutory Decree No. 539 of 1994) lays out the supervision of the insurance and re-insurance companies. All insurance and re-insurance companies, whether foreign or domestic, are subject to the same legislation.

118. The establishment of insurance or re-insurance companies and the opening of a branch of a foreign insurance or a re-insurance company are subject to permission by the Ministry of State to which the Undersecretariat of Treasury is attached. Following establishment, companies must obtain a separate licence for each branch from the Undersecretariat of Treasury. Insurance and re-insurance companies must be established either in the form of a joint-stock company or a mutual company. Foreign insurance or re-insurance companies may also operate in Turkey by opening branches provided they have not been prohibited from carrying out insurance business in the country where they operate.

119. Insurance companies may only engage in insurance business and must perform either life or non-life insurance business, but not both.[66] No class of insurance is monopolized apart from export credit insurance, which, by law, is provided solely by the Turkish Export-Import Bank. The only form of insurance activity prohibited in Turkey is tontines (by which the last survivor of a group of persons acquires the capital invested). The minimum paid-up capital requirement of insurance and re-insurance companies is TL 1.6 trillion (some US$8 million) as of end-1997. The minimum solvency margin for insurance companies is set in terms of premium production and claims figures; the margin varies in life and non-life insurance branches. Compulsory reserves must be invested locally except for premiums earned abroad in life insurance, as well as statutory and free reserves, which can be invested overseas, subject to certain criteria. There are no restrictions on portfolio composition and risk exposure of insurance companies. Since 1990, insurance tariffs have been deregulated.

(iii) Transportation

(a) Maritime

120. Maritime transport is important for domestic and international trade, since three of Turkey's main industrial centres (Istanbul-Izmit, Izmir, and Adana) are on or near the sea. The capacity of the merchant marine fleet over 300 gross tonnage (grt) ships, reached 6.2 million grt in March 1998, compared with 3.2 million grt in 1987. Port facilities are increasingly overcrowded and inadequate to deal with the 36% rise in ship traffic between 1987 and 1997.

121. Maritime activities are administered mainly by the Undersecretariat of Maritime Affairs, and subject to Turkish Commercial Law No. 6762, Cabotage Law No. 815, Ports Law No. 618, and the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers of 1978 (STCW78).

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

Market access

122. In commercial shipping, the share of public ownership and government involvement has gradually been reduced by opening some activities, such as pilotage and towing (since 1993), to the private sector through lifting the monopoly rights of the Turkish Maritime Organization (TDI). Six ports have so far been privatized (foreign equity of up to 49% is allowed), but the main ports are still owned and operated by public enterprises, such as the TDI and the Turkish State Railways (TCDD). State-owned ships have also been sold to the private sector.[67] All activities, except cabotage, are open to foreign investors.

123. Merchant maritime transport and passenger services, pilotage and all other port services may only be provided by Turkish flag ships (Cabotage Law No. 815). In order to fly the Turkish flag, the shipping companies must have a majority of 51% Turkish shareholders (Commercial Law No. 6762). First mates and masters of ships must be of Turkish nationality, while up to 40% of the officers of ships engaged in international seaborne transportation (i.e. excluding cabotage) are allowed to be foreign nationals.[68] National vessels can be authorized to change flag for a period of between one and two years when they are bareboat "chartered out", while foreign vessels can be authorized to fly the national flag for a period between one and two years when they are bareboat "chartered in".

National and most-favoured-nation treatment

124. Vessels flying the Turkish flag benefit from a price preference: when bidding for public cargoes to be shipped to overseas countries or carrying strategic raw materials, they are awarded the bids even when their quotations are up to 10% higher than the lowest foreign flag vessel quotation.

125. The Undersecretariat of Treasury is authorized to permit public entities to transport their imported goods under foreign flags. Foreign flag vessels are used in the following cases: (i) if Turkish flag vessels' quotations are more than 10% higher than quotations by foreign flag vessels; (ii) if loading is at ports not used by Turkish flag vessels; and (iii) if the capacity and/or technology used by the Turkish flag vessel is insufficient for the cargo and route.

126. A new tariff system for Turkish ports, which entered into force on 1 July 1995, is based on the principle of non-discrimination between Turkish and foreign flags. Special tariffs at each port are established, and discounts on port dues and charges are linked to the frequency of calls at the same port. Since 1 January 1997, port services charges for foreign and Turkish ships have been the same.

127. Special tax incentives are provided to Turkish investors in the maritime sector. Incentives include: an income tax of only 10% on the wages of the seafarers during international voyages; and the book profit resulting from sale or loss of a vessel can be deducted from the purchase price of the same kind of replacement vessel within three years and after deducting the realized depreciation amount.

128. At the main ports the following services are provided: pilotage, towing and tug assistance, provisioning, fuelling and watering, garbage collecting and ballast waste disposal, navigation aids,

[67] In November 1997, the state-owned share of the deadweight tonnage of the nationally owned fleet was 8% or 837,977 dwt (out of 10,125,406 dwt for ships of 150 grt and above).

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

shore-based operational services essential to ship operations, including communications, water and electrical supplies, emergency repair facilities, anchorage, and berth and berthing services. Loading and unloading operations at Tekirdag, Dikili and Güllük ports are provided by private companies in accordance with the contracts made between the port authorities and companies.

129. All services, access to ports, pilotage, towing and tug assistance, provisioning, fuelling and watering, and navigation aids, are available to the user at port without any discriminatory or preferential treatment. All TDI and TCDD ports are open to foreign-flag vessels.

130. Although there are MFN clauses in some bilateral maritime and/or trade and navigation agreements signed in the early years of the Republic, Turkey is in a position to select and/or eliminate such clauses via diplomatic channels and/or negotiations with the relevant countries.[69]

Shipping conferences

131. Turkey has no laws and regulations governing the operation of liner conferences.

(b) Air transport

132. Air transport is dominated by the state-owned Türk Hava Yollari (THY), although, increasingly, private airline companies - both charter and scheduled services - are competing on national routes.[70] In addition to THY, there are 118 air carrier companies (43 general aviation airlines, 59 charter and non-scheduled air taxis, ten airlines and six air cargos) and 38 agricultural spraying companies; all of these are privately owned except for 13 air taxis. THY enjoys a monopoly on international routes, with the exception of routes between Turkey and Germany. Although the 1994 privatization law provides for the unconditional privatization of 49% of THY, there has been little progress so far towards its privatization; the company is even undertaking major new investments.[71]

133. With the enactment of Public Law No. 2920 on Turkish Civil Aviation, private air carriers have been allowed to establish since 1983. Authority for approval of new carriers is vested in the Ministry of Transportation (pursuant to Law No. 2920 and the Regulation on Commercial Air Transport Operations issued under the law). Air carriers are authorized to operate scheduled domestic services if they have a minimum of five "large bodied" aircraft in their fleet, of which two are fully owned, or, where there are no company-owned aircraft, upon provision of a bank letter of guarantee for an amount of US$2 million.[72] The technical and financial supervision of existing carriers is carried out by the Directorate General of Civil Aviation.

134. The majority of the company executives and authorized representatives are required to be of Turkish nationality (Article 49 of Law No. 2920) and the Turkish partners must have voting majority. Hence, the equity participation ratio of foreign shareholders is restricted to 49%. There are no plans

[69] WTO document S/NGMTS/W/2/Add.23/Rev.1, 25 September 1995.

[70] In 1997, THY carried some 14.8 million passengers (of which 10.3 million were on domestic routes). The total number of passengers carried by the three next largest air carriers was: Istanbul Airlines 2.7 million (0.9 million on domestic routes), Onur Airlines 2.3 million (0.1 million on domestic routes) and KTHY 0.8 million (0.01 million on domestic routes).

[71] THY - which recently secured US$123.5 million in financing to purchase a four-engine Airbus A340-300, the fifth in its fleet - is planning to purchase 54 medium-range jets at a cost of about US$2.5 billion (EIU, 1997).

[72] According to Article 18 of Regulation SHY-6A (Regulation on Commercial Transport Operations) aircraft with a seating capacity of 50 and above are termed "large bodied".

to ease the restriction on foreign direct investment. Airlines with a majority of the shares controlled by foreigners are not permitted to carry passengers from one national point to another.

135. Access to the main national airports is allocated following application to the Turkish Civil Aviation Authority under the rules prescribed in the FAL Chapter of the Turkish AIP, and acquisition of a contract signed with a ground-handling company for the provision of services. Landing and take-off rights are allocated on a first-come-first served basis. Slot allocation is applied at Atatürk, Antalya, Adnan Menderes, Dalaman and Esenboga Airports. Air carriers operating scheduled services to Turkey are authorized on the basis of reciprocity within the framework of bilateral agreements. Charter services are authorized on the basis of reciprocity under the rules of the European Civil Aviation Commission (ECAC) of which Turkey is a member.

136. Access to cargo flights is provided under the provisions of Law No. 2920 and relevant articles of the Regulation on Commercial Air Transport Operations as well as the applicable provisions of bilateral air transport agreements signed by Turkey.[73]

137. Cabotage rights are not granted to foreign carriers.

138. Public Law No. 4054 on the Protection of Competition does not grant any exemptions specific to the national air transport services industry. No special privileges are granted to the government-owned air companies, except that, as in a number of other countries, Turkish civil servants are obliged to use the national airline for official travel overseas.

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

140. The prices charged by air carriers operating scheduled services are formally approved by the Ministry of Transport and Communications (Article 25 of Law No. 2920). However, in recent years prices have been set by the carriers in accordance with the requirements of free market economy principles. The Government does not intervene in any way in the prices of non-scheduled and air taxi operators.

141. Infrastructure facilities have been operated and provided by the Administration of State Airports (DHMI). During recent years, the Government has been encouraging foreign and domestic private sector participation in construction and operation of new terminal buildings, using the BOT (build, operate and transfer) model. The widespread use of this model is planned in the construction of new airports, or terminal buildings at existing ones.

142. Imports of a wide range of aircraft-related items (78 items at the four-digit level) are only permitted on approval by the General Directorate of Civil Aircraft in the Ministry of Transport. The purpose of the restriction is, according to the authorities, to assure that the imports are used only in the civil aircraft industry. Most import applications are approved; in 1997, 1,350 applications out of a total of 1,500 applications were approved.

[73] Turkey has signed bilateral air transport agreements with 82 countries. Under these agreements 63 foreign airlines are operating scheduled services to Turkey. On the other hand, THY is operating scheduled services to 100 cities abroad.

(iv) Telecommunications

143. The telecommunications network has expanded rapidly, now covering all villages and remote areas. In 1985, the total number of mainlines was only 2.5 million, but today there are around 14.7 million.[74] In 1996, Turkey ranked 9th in terms of network size, compared with 17th a decade ago in the OECD community. Turkey's "tele-density" rose from 4.4 in 1985 to 25.2 per 100 inhabitants in 1997 (Table IV.15).

Table IV.15
Overview of the telecommunications sector, 1985-97

	1985	1990	1997
Total number of main lines (million)	2.5	7.5	14.6
Waiting list (million)	1.8	1.4	0.4
Telephone penetration			
Lines per 100 inhabitants	5.1	13.2	28.1
Subscribers per 100 inhabitants	4.4	12.1	25.2
Telephone traffic (million minutes)			
International outgoing	66	159	558
International ingoing	178	474	839
Public telephones (payphones) ('000)	10.8	39.4	70.7
Subscribers of analogue cellular telephones ('000)[a]	0	31.8	126.7

a Global System for Mobile Communication (GSM).

Source: Government of Turkey.

144. In 1994, with the enactment of Law No. 4000 of 1994, the state Posts, Telegraphs and Telephones (PTT) was split into the post and telecommunications functions and the telecommunications division was incorporated as Türk Telecom Co., Inc (TTAS). TTAS, a wholly government-owned corporate entity, enjoys a monopoly.

(a) Basic services

145. The 1994 law gave the power to the Ministry of Transport and Communication to decide on the sale of 49% of TTAS's shares, including the principles and procedures to be followed. Although the privatization of TTAS has been slow, it has received renewed political support, and, following the rejections of previous proposals on constitutional grounds, revised telecom legislation was passed in early 1995 (Law No. 4107 of May 1995).[75] This will pave the way for faster private-sector involvement. In March 1997, an advisory agreement was signed with Goldman Sachs for the initial sale of the telecommunications giant, with 10% of the shares to be sold in the first tranche. The Government hopes that the sale will yield about US$3.3 billion in 1998. Ultimately 49% of the company's equity will be sold, of which 34% will be offered on the domestic and international markets, 10% will go to the country's postal services, and 5% will go to Turk-Telekom employees and other small investors.

[74] The web-site of the Turkish State Planning Organization (http://www.dpt.gov.tr/~eakdemir/turkmarket.html).
[75] The Constitutional Court examines whether laws comply with the articles of the Constitution.

(b) Value added services

146. Currently, no licences for the provision of value-added services have been awarded to private sector investors, despite the power of the Ministry of Transport and Communication under Law No. 4000 to grant 49-year licences for the provision of some value-added services.[76] However, cellular phone licences (with a value of about US$1 billion) have been in dispute for several years. Moreover, the Ministry's power to evaluate and finalize licensing procedures was recently cancelled by the Constitutional Court. In response, the Government is now preparing necessary modifications to be issued as a law or government decree.[77]

147. Call-back services are not permitted by law, and TTAS may initiate legal action against such services. However, these services are not physically blocked.

(c) Regulatory structure

148. The regulatory structure in Turkey is somewhat fragmented among government agencies. The Ministry of Transport and Communication is responsible for sectoral policies and regulation through its two offices: the General Directorate of Communications, the regulatory body for wired communications; and the General Directorate of Radio Communications, the regulatory body for spectrum management. The Radio Television Supreme Council is an independent regulatory body responsible for broadcasting, a sector comprising more than 1,500 private broadcasting stations.

149. Turkey is a signatory to the following inter-governmental agreements: ITU Constitution and Convention; ITU Radio Regulations; ITU International Regulations; Agreement and Operating Agreement of INTELSAT; Convention and Operating Agreement of INMARSAT; and Convention and Operating Agreement of EUTELSAT. Turkey has not signed any bilateral agreement in the area of telecommunications.

(d) Forthcoming changes

150. In the area of telecommunications, Turkey has made commitments under the WTO 1997 Agreement on Telecommunication Services, which is appended to the General Agreement on Trade in Services (GATS). Within this framework, Turkey will abolish TTAS' monopoly on basic services by 31 December 2005.

(v) International tourism

151. The international tourism industry developed late in Turkey but has expanded fast, especially in Istanbul and on the western and southern coasts. Large numbers of hotels, guest houses and holiday apartments have been built, but the length of coastline has allowed much of its natural beauty to be preserved. There are also important historical sites. New forms of tourism that can be labelled eco-tourism activities are being introduced. The number of licensed tourist beds rose from 62,000 in 1982 to 553,090 in 1997. Tourists arrivals increased from 4.1 million in 1988 to 9.7 million in 1997, while receipts increased from US$1.5 billion to US$7.0 billion during the same period[78]; as a result of the increases in receipts from tourism, Turkey has been able to offset about one third of its

[76] Mobile telephone, pager, packet-switched data transmission, circuit-switched data transmission, facsimile services, data networks, intelligent network, cable television, coin-operated telephone, satellite systems, similar value-added services and directory printing services.

[77] State Planning Organization's web-site (http://www.dpt.gov.tr/~eakdemir/turkmarket.html).

[78] State Planning Organization (1997).

merchandise trade deficits during the 1990s (Chart IV.8 and Table AI.2).[79] About 45% of the visitors come from Western Europe (mainly Germany), and another 45% from Eastern Europe and the former Soviet Union.

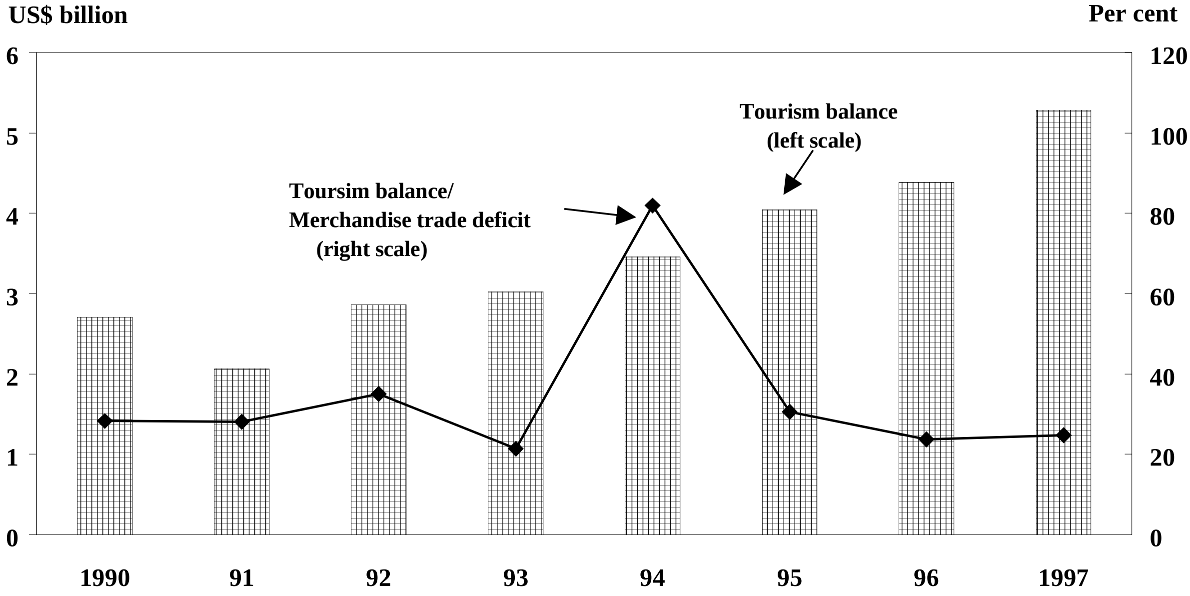
152. The Tourist Board, TÜRSAB, established in 1972 according to Law No. 618, under the purview of the Ministry of Tourism is responsible for supervising travel agencies. Within the Ministry of Tourism there is a section responsible for inspection of hotels, holiday villages, yacht enterprises, travel agencies, the professional organization (Union of Turkish Travel Agencies) and professional tourist guides. Under the Tourism Encouragement Law No. 2634 of 1982, tourist regions, areas and centres were designated and investment in tourism facilities was encouraged, while the State was in charge of investment in infrastructure.[80]

153. The Turkish Government has played an active role in the tourism sector. It grants incentives for tourism investments (Box IV.4) in accordance with the Tourism Encouragement Law; provides infrastructure and public services for tourism; defines zones with high tourism potential, promulgates designated tourism centres or areas by decree; elaborates and approves land use plans; conducts environmental controls; promotes the country abroad; carries on research and the collection of statistics; and provides vocational training. Local administrations are responsible for similar matters at local levels.[81] In addition, investors in the tourism sector have priority in incentives granted under the general investment aid programme (Chapter III (4)(ii)).

154. Data are not available on the total cost of these government-sponsored activities. However, as noted above, the Government provides substantial funds for marketing; in 1997 expenditure amounted to US$22 million for participation in various international fairs for tourism, inviting journalists from various countries to travel within Turkey, and advertising in foreign newspapers and magazines.[82] The total 1998 budget allocation for the Ministry of Tourism is TL 17.5 trillion (or 0.1% of total government expenditure).

[79] In 1994, when the merchandise trade deficit drastically improved as a result of the contraction in merchandise imports, the tourism balance covered as much as 82% of the merchandise trade deficit.
[80] Yamamoto (1997).
[81] Kaya (1997).
[82] Yamamoto (1997).

Chart IV.8
Tourism and merchandise trade balances, 1990-97



Source: State Planning Organization (various issues), Main Economic Indicators.

Box IV.4: Incentives offered only to the tourism industry *Special incentives are offered to national and foreign investors for investment in the construction and management of tourist facilities (Law No. 2634 on the Encouragement of Tourism). Investors with a Tourism Operation Certificate issued by the Ministry of Tourism may benefit from the following incentives:* - *corporate income tax exemptions (temporary measure): maximum 20% of the foreign exchange earnings of tourist establishments is deducted from the total gross profit subject to taxation;* - *the Central Bank of Turkey provides up to 20% of fixed investment costs in cash;* - *a property tax exemption for five years (temporary measure);* - *the allocation of public land for the construction of tourist facilities on long-term lease;* - *permission to employ foreign personnel and artists (up to 20% of the total personnel);* - *discount rates on water, electricity and gas prices;* - *priority in allocation of telephone, fax and telex lines; and* - *foreign exchange retention quotas: a percentage of foreign exchange earned by tourist establishments may be retained by the investors and used for essential imports required for operation.* *Source: Government of Turkey; and Yamamoto, K. (1997), "Development of International Tourism in Turkey - its effects and problems", Journal of International Economic Studies, No. 11, p. 80.*

155. Foreign companies have increased their role in the tourism sector since the mid-1980s. Foreign capital in Turkey is US$1.7 billion (1997) of which US$0.2 billion (or 14%) is invested in the tourism sector. Foreign investors may have an equity share up to 49% of total investment for

accommodation facilities, if the bed capacity is between 100 and 200; if the capacity is more than 200, foreign investors may hold an equity share of up to 100%.[83]

156. Neither foreign nor domestic companies are allowed to set their own prices. Companies are required to have their prices annually cleared by the Ministry of Tourism. However, enterprises are not required to charge uniform prices.

157. Restrictive visa requirements are, according to the authorities, a constraint on the growth of Turkish citizens travelling abroad. The costly visas, with subjective criteria, applied by the developed countries constitute a barrier for Turkish tourists as well as for businessmen. The authorities further note that the administrative formalities applied to citizens travelling abroad could usefully be included in the agenda of the WTO services negotiations.

[83] Yamamoto (1997).

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