The following communication, dated 12 July 1995, has been received from the Permanent Mission of Turkey.

In view of the decision taken by the CONTRACTING PARTIES of the GATT 1947 on Avoidance of Procedural and Institutional Duplication (L/7582, dated 13 December 1994) this notification is deemed to be also a notification under Article XVI:1 of the GATT 1947.

With reference to the provisions of Article XVI:1 of the GATT 1994 and Article 25.2 of the Agreement on Subsidies and Countervailing Measures in response to the invitations contained in document G/SCM/N/3, Turkey notifies the Committee on Subsidies and Countervailing Measures of the export subsidies maintained within her territory.

The economic recession in the OECD region since 1991 has severely affected Turkish exports and seriously indicated that new export policies needed to be put into effect. Within this context, new trade policies have been designed to support new market accessions in alternative sectors. Thus, the year 1995 is a starting point for a new phase in Turkish economy, as she became a member of the World Trade Organization on 26 March and signed a Customs Union Agreement with the European Union on 6 March that would be enforced by 1996.

Due to the above-mentioned developments, Turkey is making some adaptations in its foreign trade policy that are in harmony with the EU legislation and the new world trade order. Especially taking into account the provisions of the WTO Agreements Turkey has already started improving various areas such as legislation, production capacity and standards, etc. For example, a new incentive programme for her manufacturers and exporters is being designed with the aim of giving indirect assistance to the firms, such as financial assistance to research and development projects.

In addition to this, in order to encourage exports, export credits, insurance and guarantee schemes are being offered by Turk Eximbank, in accordance with the WTO Agreement provisions. These instruments have a significant role in the liberalization and external orientation of the Turkish economy.
Turk Eximbank, Turkey’s official export credit agency, was established in August 1987 and has been in operation since mid-1988. Turk Eximbank’s efforts have been focused on achieving product and country diversification of Turkish exports, encouraging further changes in the composition of exports towards manufactured goods with high domestic content and supporting exporters and overseas contractors to operate in an environment of reduced risk, as may be seen in the following detailed description of Turk Eximbank’s programme.

The major goals of the recent Turkish export incentive policy are: increasing exports; improving the balance of payments; enhancing the competitiveness of Turkish exports in world markets; diversifying export compensation; and raising the capacity of the utilization rate.

As mentioned in the following notifications, Turkey has maintained two export incentive programmes:

1. Energy incentive for goods that are to be exported.
2. Export Credits, Insurance and Guarantee Schemes.

1. ENERGY INCENTIVE

(a) Background and authority

This subsidy has been established under the Council of Ministers Decree numbered 92/3464, and published in the Official Gazette Number 21364 of 3 October 1992. Procedures and guidelines concerning this practice are administered by the Undersecretariat for Foreign Trade.

(b) Structure of the subsidy

Within the aim of compensation for the disadvantage due to the high energy costs, vis-à-vis the average world energy cost levels, the firms manufacturing the final products to be exported can purchase electricity, natural-gas and liquified petroleum (LPG) consumed in the production of the exported final products, at discounted prices that are determined by the Money and Credit Board, taking into account the energy prices in the EU countries. Also for fuel-oil, an exemption from customs duty and all fund levies collected on imports is being implemented.

(c) Effect of the subsidy

Within the framework of this subsidy, in 1993 a total of LT 281 million and in 1994 (January-August period) LT 88 billion has been paid to the producer exporters.

This subsidy has been financed by the resources of the Fund for Encouragement of Investment and Foreign Currency Earning Service.

Due to the fact that the Money and Credit Board have not determined the discount rates since August 1994, this subsidy is not being implemented presently.

2. EXPORT CREDITS, INSURANCE AND GUARANTEE SCHEMES

The following notification is made in order to increase transparency in the spirit of Article XVI:1 of the GATT 1994 and Article 25.2 of the Agreement on Subsidies and Countervailing Measures and
does not mean that any of the schemes involved are considered to constitute a subsidy as defined by the above article.

CREDIT PROGRAMMES

(a) The Pre-Shipment Export Credit Programme

Designed to meet the financing needs of exporters and/or export-oriented producers starting from the early stages of production. The pre-shipment export credit programme (PSEC) is a short-term credit facility. Credits under this programme are allocated to the agricultural, mining and industry sector, irrespective of the country destination through the intermediation of commercial banks with which Turk Eximbank has established lines of credit. Intermediary commercial banks are responsible for the risk of the non-payment by the borrowers.

PSEC are extended up to 120 days and for a maximum of 75 per cent of f.o.b. value of export commitments for agricultural-mineral products and manufactured goods. Applications to this programme must be short term whole turnover export credit insurance policyholders. Interest rate is linked to the Central Bank short-term rediscount rate. Credit provided per company cannot exceed LT 50 billion. The interest and the principal amount should be paid at the end of the term period. Interest rate varies according to the repayment period.

(b) The Target Market Credit Programme

Introduced in April 1993, the Target Market Programme provides a remarkable financial support to Turkish export-oriented textile, clothing and leather industry through preferential maturity and interest rate. The interest rate applied in this programme is 10 basis points less than those extended under the PSEC programme while the maturity is 180 days. Credits within the programme cannot exceed 70 per cent of f.o.b. value of export commitments and the destination of exports is limited with NAFTA countries as well as Japan and South Africa.

(c) Foreign Trade Companies Credit Lines

The Foreign Trade Company Credit Programme provides revolving credits allocated to foreign trade companies with annual export shipments exceeding $50 billion and sectoral foreign trade companies (that are established by export-oriented manufacturing firms in the same sector and approved by Treasury) on the basis of past realization.

Under this programme credits are extended in LT (Rediscount Credit) and/or foreign currency (Foreign Currency Credit). The interest rate charged for this facility is determined in accordance with the Central Bank of Turkey’s discount rate and to LIBOR for Foreign Currency Credits. The primary objective of this facility is to increase the export performance of export trading companies by supplying working capital at moderate terms. The foreign trade companies should hold export credit insurance policies to make use of these credit lines. Credits are extended for 90 days and Foreign Currency Credits are extended for 270 days and for as much as 10 per cent of f.o.b. value of export commitments projected for 3 months.

(d) Small and Medium-Scale Firms Export Credit Programme

In 1994, Turk Eximbank introduced a new credit facility to increase its support to small and medium-scale firms. This programme has been put into implementation with the coordination of Turk Halk Bank, one of the largest state-owned banks that specializes in supporting small and medium-scale
firms. Through this programme, short-term export credits are extended with a maturity of 180 days and only the small and medium-scale export-oriented producers are eligible to obtain these credits. The credit amount cannot exceed 60 per cent of f.o.b. value export commitments.

(e) **Foreign Currency Export Credit Programmes**

Under the Foreign Currency Export Credit Programme, credits are extended by 70 per cent of the f.o.b. value of export commitments for maximum one year maturity. Exporters, manufacturer/exporters and manufacturers of goods destined for export are eligible. Interest rate varies in accordance with repayment period of the loan and is linked to LIBOR/FIBOR.

(f) **Foreign Currency Realization Credit Programme**

In 1994, Turk Eximbank also introduced another foreign currency credit programme to support export projects. This new credit facility is allocated on the basis of export realization of exporters. The firms applying for credit under this scheme should demonstrate a certain export realization in the 12-month period preceding the application date. The credit is extended directly by the Istanbul branch of Turk Eximbank for maximum 9 months and for 70 per cent f.o.b. value of export commitments. Interest rate is determined in accordance with LIBOR/FIBOR.

(g) **Buyers’ Credit Scheme**

Through Buyers’ Credit Programmes, Turk Eximbank enables foreign buyers to purchase Turkish goods and services on deferred payment conditions, and thereby aims to boost the comparative strength of Turkish made goods and services in international markets. This programme commanded a significant share of recent Turk Eximbank’s activities.

Thus, exporters have been enjoying the crucial support of Turk Eximbank in entering relatively risky markets and in obtaining a long-lasting and established selling position. Eligible goods are specified within the buyers’ credit agreements, and all goods and services must have at least 50 per cent domestic content. The credit limit is a specific portion or equal amount of the f.o.b. value stated on the letter of credit arranged on behalf of the exporter (on the condition that this amount is within the total credit limit assigned to the country of destination). Credits extended under this scheme might reach as much as 100 per cent of export shipments. The term of credit is short, medium or long term depending on the type of goods and services. Rate of interest varies among countries according to their relative credit risk standing and are calculated in relation to LIBOR. The interest should be paid at the end of every six months. Promissory notes are demanded from the counterpart institution of Turk Eximbank domiciled in the country to which the credit has been extended.

As of end of 1994, a total of $1.2 billion worth of credit has been extended under the Buyers’ Credit Programme (see table 1)
Since 1992, Turk Eximbank has extended credit facilities to the newly formed Republics of the former Soviet Union in accordance with the Agreed Minutes signed between the Republic of Turkey and the respective republics in the region in order to enable them to adopt to the conditions of transaction period to free market economy promptly and smoothly.

Within this framework, a total of $918 million worth of insurance, guarantee and credit has been provided through commercial banks in order to finance exports to the Central and Western Asian Republics as well as to finance investment projects in these countries. Within this context, the total disbursement is $421 million by the end of 1994. The detailed explanations of these Programmes are given in the following table:

<table>
<thead>
<tr>
<th></th>
<th>Credit amount</th>
<th>Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td>USSR</td>
<td>800</td>
<td>599.4</td>
</tr>
<tr>
<td>- 1st credit</td>
<td>150</td>
<td>144.7</td>
</tr>
<tr>
<td>- 2nd credit</td>
<td>150</td>
<td>147.9</td>
</tr>
<tr>
<td>- 4th credit</td>
<td>300</td>
<td>194.6</td>
</tr>
<tr>
<td>- 5th credit</td>
<td>200</td>
<td>112.1</td>
</tr>
<tr>
<td>Romania</td>
<td>50</td>
<td>45.7</td>
</tr>
<tr>
<td>Albania</td>
<td>15</td>
<td>13.9</td>
</tr>
<tr>
<td>Tunisia</td>
<td>40</td>
<td>1.9</td>
</tr>
<tr>
<td>Syria</td>
<td>15</td>
<td>7.0</td>
</tr>
<tr>
<td>Nakhichevan - I</td>
<td>10</td>
<td>9.7</td>
</tr>
<tr>
<td>Nakhichevan - II</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>30</td>
<td>29.9</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Algeria</td>
<td>100</td>
<td>99.5</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>50</td>
<td>20.9</td>
</tr>
<tr>
<td>Hungary</td>
<td>10</td>
<td>0.1</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>16</td>
<td>12.9</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,147.8</td>
<td>852.6</td>
</tr>
</tbody>
</table>
Table 2: Turk Eximbank Buyers' Credit Insurance/Guarantee Programmes

<table>
<thead>
<tr>
<th>Countries</th>
<th>Credit amount ($ million)</th>
<th>Disbursements as of 31.12.94 ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UZBEKISTAN</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Export finance</td>
<td>250</td>
<td>141.98</td>
</tr>
<tr>
<td>- Project finance</td>
<td>125</td>
<td>124.58</td>
</tr>
<tr>
<td>- Project finance</td>
<td>125</td>
<td>17.40</td>
</tr>
<tr>
<td><strong>TURKMENISTAN</strong></td>
<td>75</td>
<td>74.99</td>
</tr>
<tr>
<td>- Export finance</td>
<td>75</td>
<td>74.99</td>
</tr>
<tr>
<td><strong>KAZAKHSTAN</strong></td>
<td>200</td>
<td>93.02</td>
</tr>
<tr>
<td>- Export finance</td>
<td>55.70</td>
<td>39.89</td>
</tr>
<tr>
<td>- Project finance</td>
<td>144.30</td>
<td>53.13</td>
</tr>
<tr>
<td><strong>KYRGYZSTAN</strong></td>
<td>73.20</td>
<td>24.20</td>
</tr>
<tr>
<td>- Export finance</td>
<td>26.92</td>
<td>19.40</td>
</tr>
<tr>
<td>- Project finance</td>
<td>46.28</td>
<td>4.80</td>
</tr>
<tr>
<td><strong>AZERBAIJAN</strong></td>
<td>220</td>
<td>29.30</td>
</tr>
<tr>
<td>- Export finance</td>
<td>70</td>
<td>21.11</td>
</tr>
<tr>
<td>- Project finance</td>
<td>150</td>
<td>8.19</td>
</tr>
<tr>
<td><strong>GEORGIA</strong></td>
<td>50</td>
<td>41.52</td>
</tr>
<tr>
<td>- Export finance</td>
<td>50</td>
<td>41.52</td>
</tr>
<tr>
<td><strong>TAJKISTAN</strong></td>
<td>50</td>
<td>16.06</td>
</tr>
<tr>
<td>- Export finance</td>
<td>50</td>
<td>16.06</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>918.2</td>
<td>421.07</td>
</tr>
<tr>
<td>- Export finance</td>
<td>452.62</td>
<td>337.55</td>
</tr>
<tr>
<td>- Project finance</td>
<td>465.58</td>
<td>83.52</td>
</tr>
</tbody>
</table>

Export finance has been intended to be a short-medium term facility in the sense that Turkish exporters supply the urgent needs of the republics provided that the goods have a local content of minimum 50 per cent. Export finance is the most immediately accessible method and provides them with a relief of one-year grace period in general. The interest rate is LIBOR plus spread which is decided according to the maturity and the repayment schedule. The funding is offered by the commercial banks in Turkey and Turk Eximbank issues a guarantee letter on account of the correspondent bank in the republic, the commercial bank in Turkey being the beneficiary. The coverage of financing is 95 per cent of the f.o.b. value of the goods exported.

Project/investment finance is longer term facility since it involves the transfer of technology and know-how, and makes the republics pick up the methods of production and service sector instead of directly benefiting from the end-products. Due to the nature of the works accomplished, it necessitates longer grace periods and therefore longer maturities. Turk Eximbank determines the grace period almost as the same length as the investment periods; within the limits set forth by OECD standards. There are both fixed and variable interest rates in this respect settled as a result of negotiations with republics. Funding is provided by Turk Eximbank or Commercial banks in Turkey, or any other financial institution abroad, depending on the specific project. In case Turk Eximbank is not the direct financier, the provider of funding is expected to demand the guarantee letter of Turk Eximbank as
the beneficiary on account of the correspondent bank in the republic. The coverage of financing is maximum 95 per cent of the value of various projects to be implemented by Turkish companies in the republic’s minimum of 60 per cent of the project should be undertaking by Turkish contractors.

(h) Islamic Development Bank Longer Term Trade Financing Scheme

Turk Eximbank acts as an intermediary for the Longer-Term Trade Finance Scheme, established by the Islamic Development Bank (IDB). This scheme provides financing for all goods exported to member countries of the Organization of Islamic Conference having at least 40 per cent domestic content.

The amount of finance provided from the scheme is utmost 80 per cent of the export amount with a maturity between six to 60 months depending on the type of goods exported.

Under the same programme a line of credit amounting to ID 20 million (approximately $27 million) was collected at Turk Eximbank in 1993. The agreement related to the allocation of this line was signed in Ankara on 20 January 1993.

Through its numerous credit programmes, the most important ones being the Pre-Shipment Export Credit Programme and Buyers’ Credit Scheme, Turk Eximbank has provided support for 27 per cent total exports in 1994. The total amount of exports that have been supported by the end of 1994 through export credit facilities reached $4.7 billion.

GUARANTEE PROGRAMMES

In order to provide bridge financing to Turkish contractors operating in Libya, a guarantee programme has been in effect throughout 1992. The political risks are borne by the Turkish Treasury.

In overseas construction services, firms which provide a longer maturity period generally obtain substantial advantages over the others. By taking this into consideration, Turk Eximbank issued letters of intent for six Turkish overseas contractors that submitted proposals to the tender held in Kuwait, Pakistan and Tunisia.

INSURANCE PROGRAMMES

Apart from credit and guarantee programmes mentioned above, Turk Eximbank provides insurance cover for Turkish exporters, investors and overseas contractors against commercial and political risks by offering a variety of insurance policies. Export credit insurance is provided under four different schemes:

(a) Short-Term Export Credit Insurance

Under Short-Term Export Credit Insurance, all shipments to be made by an exporter within one year, with payments deferred up to 360 days, are insured under a single policy against political and commercial risks. The Short-Term Export Credit Insurance Programme is a “post shipment” facility.

Commercial risks covered are non-payment due to the insolvency of the buyer, the buyers’ failure to pay for the goods which he has accepted and the refusal or failure of the buyer to take delivery of the goods that have been despatched to him. Political risks covered are those that may occur outside the control of the exporter and non-sovereign buyer. Cancellation of import permits and licenses, losses that may arise as a result of war, revolution, civil war and transfer difficulties are the risks covered.
The amount of premium to be paid is calculated in accordance with the premium rates set by Turk Eximbank. Premium rates vary according to country, payment terms and type of buyer. The programme gives cover against 90 per cent of losses incurred as a result of commercial and political risks.

Turk Eximbank's decision to tie insurance to credits, initiated in 1992, increased the volume of insurance underwritten.

(b) **Specific Export Credit Insurance**

Specific Export Credit Insurance Programme is aiming to insure the receivable of the exporters resulting from exporting activities of capital goods bounded by a single sales contract up to five year terms of payments against political and commercial risks.

The commercial risks covered by this programme are the risks arising from the defaults of the buyer such as bankruptcy, buyers' not paying or not being able to pay the instalments of the price of goods specified in the manufacturing and sales contracts on due dates etc.

The political risks covered are those ones arising beyond the control of the exporter and buyer such as cancellation of import and export licenses, war, civil war, rebellion and transfer obstacles.

Specific Export Credit Insurance generally covers the export of capital and semi-capital goods having medium period terms of payment such as motor vehicles, ships, agricultural and mining instruments, communication and construction machines, compressors, etc. Since these goods are manufactured and sold according to the buyers' orders, this programme also covers the pre-shipment period.

As mentioned before, this programme covers the losses both arising from the risks during pre-shipment and post-shipment periods. The basis of the system is the calculation of specific percentage of "basic ratio" specified according to the type of the buyer, country risk group and regarding pre- and post-shipment duration and the amount of the sales contract. Turk Eximbank generally undertakes to cover 90 per cent of the losses due to political and commercial risks covered within the framework of the Specific Export Credit Insurance Programme.

(c) **Overseas Contractors' Services Insurance**

The Overseas Contractors' Services Insurance Programme was introduced in June 1990. The aim of this programme is to insure Turkish contractors against losses arising from commercial and political risks. Turkish Contracting Companies engaged in turn-key or partial building projects, expansion and assembly of all kinds of industrial plants and of infrastructure investments tendered by an overseas employee, are eligible to take advantage of this programme. The percentage of indemnification is 80 per cent. Fee payable depends on the credit risk situation of the country where the assignment is undertaken, completion period and maturity of repayment.

(d) **Overseas Investment Insurance**

Through the Overseas Investment Insurance Programme introduced in 1991, overseas investments realized by Turkish firms can be insured against a variety of political risks such as nationalization, foreign exchange transfer difficulties or internal strife. Investments which have the capacity to generate foreign currency and undertaken by Turkish citizens, Turkish firms and established under the turkish
Commercial Law are eligible for these scheme. Premium rates vary according to country, credit terms and contract value. The percentage of indemnification is 90 per cent of the insured amount.

Turk Eximbank currently provides Turkish exports, contractors and investors with the same financing opportunities enjoyed by their competitors abroad. While providing support for Turkish exporters, Turk Eximbank is careful to act within internationally accepted rules and regulations and also became a full member of Bern Union in 1994. Turk Eximbank is already fully equipped to deal with the possible consequences after entering the customs union with the European Union in 1996.