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A. Introduction

a) Preface

The European Council in Cardiff, which took place in June 1998, welcomed the Commission's confirmation that it would submit at the end of 1998 its first regular reports on each candidate's progress towards accession. In the case of Turkey, the European Council noted that “the report would be based on Article 28 of the Association Agreement¹ and the conclusions of the Luxembourg European Council”.

The Commission presented its first regular report on Turkey in October 1998, together with the regular reports for the other candidate countries, with a view to the Vienna European Council; a second report was adopted in October 1999, with a view to the Helsinki European Council. The Helsinki European Council noted that the next regular reports for the candidate countries would be presented in good time before the European Council in December 2000.

The structure followed by this regular report on Turkey differs from that used in previous years on three points. Firstly, the part of the present report assessing Turkey's ability to assume the obligations of membership (*Part B.3.1.*) has been structured to follow the list of twenty-nine chapters covering the *acquis*. Secondly, this part has been broadened to cover also Turkey's administrative capacity to apply the *acquis* under each of the chapters (previously discussed in a separate section of the report). Thirdly, the report includes, for the first time, a section assessing the progress made by Turkey in translating the *acquis* into its official language.

In line with previous regular reports, the present report:

- describes the relations between Turkey and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Turkey's situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of Turkey's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. This part encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as requested by the Madrid and Feira European Councils in December 1995 and June 2000 respectively. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their

¹ Article 28 states that “as soon as the operation of the Agreement has advanced far enough to justify envisaging full acceptance by Turkey of the obligations arising out of the Treaty establishing the Community, the Contracting Parties shall examine the possibility of the accession of Turkey to the Community”.

administrative structures, so as to create the conditions for the harmonious integration of those States. The Feira European Council in June 2000 emphasised the vital importance of the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter.

This report takes into consideration progress since the 1999 regular report. It covers the period until 30 September 2000. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 1999 regular report have been carried out, and examines new initiatives. Furthermore, complementing the assessment of new developments since the last regular report, this report provides also an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by Turkey in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including Turkey's administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last regular report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, is based on a forward-looking evaluation of Turkey's economic performance.

As has been the case in previous reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment and comparison between countries in terms of their concrete progress in preparing for accession.

The report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last regular report. The information they have provided in the framework of the Association Agreement and in the context of the preparation of the analytical examination of the *acquis* have served as additional sources. Council deliberations and European Parliament reports and resolutions² have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations. However, it has become clear that in a number of areas of the Community *acquis* information has to be broadened and deepened in order to complete the assessments made. It is mainly through the work of the recently created sub-committees that this additional information is to be obtained. This would allow a more complete Regular report in 2001.

² For the European Parliament the main *rapporteur* on Turkey is General Morillon.

b) Relations between the European Union and Turkey

The European Council in Helsinki (10-11 December 1999) welcomed “recent positive developments in Turkey as noted in the Commission’s progress report, as well as its intention to continue its reform towards complying with the Copenhagen criteria. Turkey is a candidate State destined to join the Union on the basis of the same criteria as applied to the other candidate States.”

The decisions taken at Helsinki were an important watershed in EU-Turkey relations. Building on the existing European strategy, Turkey, like other candidate countries is now benefiting from a pre-accession strategy to stimulate and support its reforms.

However, compliance with the Copenhagen political criteria is a prerequisite for the opening of accession negotiations. So far, Turkey has not fulfilled these political criteria.

Recent developments under the Association Agreement (including bilateral trade)

Turkey has continued to implement the Association Agreement and the Customs Union Agreement and contributed to the smooth functioning of the various joint institutions.

The Association Council met in April 2000 for the first time in three years and was chaired by Turkey. It adopted two important political decisions, one on the establishment of eight sub-committees of the Association Committee and the other on the opening of negotiations for an agreement aiming at the liberalisation of services and the mutual opening of procurement markets between the EC and Turkey. A first round of negotiations was held.

A meeting of the Customs Union Joint Committee took place in February in Brussels to discuss bilateral trade issues. The Customs co-operation committee met several times to exchange views on the functioning of the 1995 EC – Turkey Customs Union.

The EC-Turkey Joint Parliamentary Committee met in June and adopted a joint resolution for the first time. A further meeting is foreseen in November in Turkey. The 10th EC-Turkey Joint Consultative Committee on economic and social affairs took place in July in Izmir to discuss the latest developments in EC-Turkey relations and liberalisation of services and public procurement.

The EC-Turkey Customs Union continues to provide an essential element of bilateral trade relations. The Customs Union entered into its final phase on 31 December 1995 following Decision 1/95 of the EC-Turkey Association Council. Decision 1/95 covers manufactured products, but discussions have started in order to extend its scope to services and procurement.

Trade volumes between the EC and Turkey have continuously increased, with the exception of the contraction of 1999. Turkey has a constant current account deficit with the EC. 90% of Turkish imports consist of investment goods, semi-finished products or raw materials. The main categories of imports from the EC are appliances and machinery, transport equipment and chemicals. Turkey’s main exports to the EC are finished goods: textiles, agricultural products and foodstuffs.

Since the establishment of the Customs Union, the importance of the two parties in each other's trade has been continuously increasing. In 2000, the EC has provided 52.9 % of Turkish imports and has absorbed 53.1 % of Turkish exports.

The recession of 1999 caused a sharp contraction in imports, but this year's healthy recovery is driving the figures for imports from the EC upwards (+28% in value, for the last 5 months, year on year). The rise in exports is limited (+0.3 in value, for 5 months, year on year). This means that after the reduction in trade which occurred in 1999, 2000 has seen a renewed increase in the Turkish current account deficit with the EC which might bring it to around € 9 billions by the end of the year (6% of GDP). Tourist revenues rose by about 5% in the first half of 2000, after a poor result in 1999.

In general, manufactured goods circulate freely within the Customs Union territory although certain non-tariff barriers exist on the Turkish side. Some long-standing trade disputes are not being solved. In particular the access for alcoholic beverages is restricted and lengthy and burdensome testing is carried out on certain products (e.g. ceramics and tiles).

The trade in agricultural products is inter alia still hampered by the Turkish ban on imports of live bovines and beef from the Community. This constitutes a violation of the relevant decision under the Association Agreement. It nullifies the concessions on those products granted by Turkey to the EC, in exchange of the important concessions granted by the EC on Turkish agricultural products. The issue of the application of rules of origin for Turkish tuna products is also still outstanding.

Community aid

As requested by the European Councils of Helsinki and Feira, a single framework for co-ordinating all sources of EC pre-accession financial assistance for Turkey was adopted by the Commission in July 2000 and sent to the Council and the European Parliament. This regulation also provides the legal basis for the Accession Partnership for Turkey. Further steps imply that all funds available for Turkey should be put into one single budget. The Commission has made just such a proposal in the framework of the 2001 draft budget to support pre-accession assistance for Turkey.

As part of the pre-accession strategy, there will also be a doubling of the yearly financial (grant) assistance to Turkey. During the period 1996-1999, Turkey received € 376 million, which equals an annual average over € 90 million. From 2000 onwards the yearly allocation to Turkey has been set at 15% of the MEDA bilateral envelope, in addition to the € 50 million annual average allocation foreseen in the framework of the two 'European strategy/ pre-accession strategy' regulations. The first regulation adopted in April 2000 foresees € 5 million per year for 3 years; the second regulation is at present in the process of being adopted. It will provide € 45 million per year for 3 years. Overall the annual allocation to Turkey in 2000 will therefore amount to € 177 million.

All these funds will be pre-accession oriented:

- 50 % of the appropriations will be allocated for structural and sector reforms aiming in particular to harmonise Turkish legislation and practices with the EC *acquis*. Reforms will be supported through structural adjustment facilities; the objective is to help Turkey undertake major structural reforms in line with the Community *acquis*. The programme will be established in close co-ordination with the IMF and the World Bank.

- 50 % of the appropriations will finance other measures promoting Turkey's integration into the EU: to help the Turkish administration and institutions to develop the capacity to implement the Community *acquis* (through institution building); to assist Turkey in mobilising investments needed to align its industry and infrastructure with Community standards (through investment support and regional/rural development) and to support the participation of Turkey in Community programmes and agencies.

The EIB pre-accession facility and the EIB EuroMed II facility are also available to Turkey as well as is Earthquake Reconstruction and Rehabilitation facility (TERRA) (€ 600 million).

As part of the pre-accession strategy, preparations are being made to allow for the participation of Turkey in Community programmes and agencies on the same footing as the other candidate countries.

Following the opening of negotiations regarding Turkey's participation in the European Environment Agency, an agreement has been reached. Following ratification and entry into force of this agreement, scheduled for early 2001, Turkey will become a member of the Agency.

Twinning

Turkey has been informed that pre-accession advisors can be made available under the Twinning Programme.

Preparation of a process of analytical examination of the acquis

The Helsinki European Council invited the Commission "to prepare a process of analytical examination of the *acquis*." To this end, eight sub-committees were established through a Decision of the EC-Turkey Association Council of 11 April. These sub-committees fulfil a two-fold task: to prepare a process of analytical examination of the *acquis* with a view to intensifying the harmonisation of Turkey's legislation and practice with the Community's rules and regulations and to monitor the implementation of the Accession Partnership priorities.

Three sub-committee meetings were recently held (agriculture/fisheries, transport/energy and environment as well as internal market). These meetings revealed that Turkey had made an internal inventory of the state of harmonisation of its legislation with the Community *acquis*. This work was also carried out against the background of the various obligations under the Customs Union Agreement to harmonise legislation in order to remove technical barriers to trade before 2001. This inventory will be further expanded and updated using different tools made available to Turkey by the TAIEX office. The results will allow both the Commission and Turkey to get a fuller and more precise picture of the state of harmonisation. The aim is for all other sub-committees to meet before the end of the year.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”

In its 1999 regular report on Turkey’s progress towards accession, the Commission concluded that:

“Recent developments confirm that, although the basic features of a democratic system exist in Turkey, it still does not meet the Copenhagen political criteria. There are serious shortcomings in terms of human rights and protection of minorities. Torture is not systematic but is still widespread and freedom of expression is regularly restricted by the authorities. The National Security Council continues to play a major role in political life. Although there have been some improvements in terms of the independence of the judiciary the emergency courts system remains in place. In recent months there have been some more encouraging signs of democratisation. The government and Parliament have worked to adopt some key laws regulating political life, the justice system and protection of human rights. It is too early to assess the impact of these measures but these efforts should be pursued and extended to all citizens, including those of Kurdish origin. The Commission hopes that the positive impact of these measures will not be undone by the carrying out of the death sentence passed on Mr Abdullah Öcalan.”

The section below aims to provide an assessment of developments in Turkey since the 1999 regular report, as well as of the overall situation in the country, seen from the perspective of the political Copenhagen criteria, including as regards the overall functioning of the country’s executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding Turkey’s ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Turkey’s ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of justice and home affairs*) of part *B.3.1.* of this report.

Recent developments

The current coalition has now completed more than a year of government. Its support in the Turkish Grand National Assembly (TGNA) is still strong (nearly 2/3 of the 550 seats). Internal tensions in the coalition have so far been successfully mastered. All political parties in the TGNA agreed to support a common candidate for the presidential elections: Ahmet Necdet Sezer, former President of the Constitutional Court. The elections were carried out in compliance with constitutional rules, and Mr Sezer was elected President of the Republic on 5 May at the third round (330 votes out of 533). Mr Sezer’s election was well received by the Turkish public, and welcomed as a signal of strengthening the democratisation process.

Since the last Regular Report, two State Ministers have been replaced, including the State Minister in charge of human rights. In July a new post of Deputy Prime Minister and State Minister in charge of EU affairs was created. The Deputy Prime Minister in question is also in charge of the General Secretariat for EU Affairs, created in June by the Parliament.

Procedures launched by the Chief Public Prosecutor for the dissolution of the pro-Kurdish HADEP Party and the Islamist Fazilet Party (FP) are still in progress. The dissolution of the FP, suspected by the Chief Public Prosecutor of “anti-secular” activities, may trigger new parliamentary elections.

A major development in Turkish political life has been the start, soon after the Helsinki European Council, of a wide debate in the Turkish society on the conditions of Turkey’s accession to the EU. This debate is focusing on the political reforms to be carried out in order to improve the human rights record as well as on the need to respect the founding principles of the Republic of Turkey such as territorial integrity and secularism. This debate is nurtured by a number of initiatives:

- the publication by the TGNA Human Rights Committee of nine reports on torture in Turkey based on inspections of police stations and prisons in 1998/2000 and supported by detailed interviews with prisoners, their families and officials;
- the work of the Supreme Board of Co-ordination for Human Rights in which all Ministries and State organs concerned are represented. On the basis of a report prepared in the context of the new 5-year development plan (the so-called “Demirok report”), in July 2000 the Board issued a document on the political reforms to be carried out in order to comply with the political Copenhagen criteria. This work was reviewed by the Government. On 21st September, the Government made a press statement in which it declared that “the papers prepared on human rights, democracy and the rule of law [by the above mentioned Board] were evaluated and subsequently adopted as reference and working documents”. The same statement indicated that the government had set a number of priority objectives such as the adoption of new legislation on “working rights”, freedom of association and “demonstration marches”, the development of freedom of thought and expression, the improvement of the functioning of the judicial system, the establishment of a Human Rights Department under the Prime Minister³, the elimination of regional disparities in East and Southeast Anatolia, and the training of staff on matters related to EC legislation. It also indicated that draft laws aimed at harmonisation with EC rules and legal reforms should have priority for debate in the Turkish Parliament. Finally the Council of Ministers decided to continuously follow developments in the areas of human rights, democracy and the rule of law, and to evaluate periodically the efforts made in adapting to EU standards;
- the signature in August 2000 of two major international instruments in the field of human rights: the International Covenant on Civil and Political Rights, and the International Covenant on Economic, Social and Cultural Rights.

The European Commission welcomes these various initiatives, which will bring forward Turkey’s accession to the EU. It encourages Turkey to make concrete progress as soon as possible e.g. through the adoption of various proposals by the Turkish Parliament.

³ This Department has been established on 5 October 2000.

1.1. Democracy and the rule of law

The 1982 Constitution is still in force. There is, however, general consensus among political circles that the Constitution should be revised in accordance with contemporary democratic standards, for example with regard to freedom of expression. An “Inter-Party-Conciliation Committee” and a Constitution Committee in the TGNA are currently working out constitutional amendments.

The parliament

There has been no change in the structure of the Parliament and its powers continue to be respected. The opposition plays a full part in its activities.

In the run-up to the presidential elections, which took place in April/ May 2000, the Parliament has been largely diverted from legislative work. As a result, during the first half of 2000, only limited parliamentary work could be recorded on the much-expected political reforms.

The executive

An important change in the structure of the executive is the strengthening of internal co-ordination on EU matters with a view to accession. Early this year, an EU Internal Economic and Technical Co-ordination Council composed of the Foreign Minister, the State Minister in charge of foreign trade and the State Minister in charge of privatisation was established to ensure full co-ordination between relevant Ministries on technical and economic subjects. This task has now been delegated to Deputy PM Yilmaz. An executive organ, the General Secretariat for EU Affairs, was created by the Parliament in June 2000 to ensure the effective co-ordination of all governmental affairs related to EU-Turkey relations. The Secretariat will have approximately 70 staff.

There are no further reforms of the public administration to report. However, a limited reinforcement of the staff of the EC Co-ordination Department in the Ministry of Justice has taken place.

Civilian control over the military still needs to be improved (see also section below on the National Security Council). Contrary to EU, NATO and OSCE standards, instead of being answerable to the Defence Minister, the Chief of General Staff is still accountable to the Prime Minister. It is also noted that the Council of Higher Education, which controls the activities of the institutions of higher education, as well as the Higher Education Supervisory Board, include one member selected by the Chief of General Staff.

There has been no particular change at the level of regional and local administration. Control by the central administration over local government remains strong. The draft law on local government, which is aiming at further decentralisation and is currently under discussion among Ministries, remains to be adopted.

The judicial system

A positive development over the past year has been the increase of the number of judges and prosecutors, from a total of 8,300 last year to a total of 9,947 (including candidates). Following a new wave of recruitment in March 2000, this number should be further

raised to 10,347. The Ministry of Justice considers that such an increase fits current needs for extra staff.

At the same time however, no other specific measures aimed at increasing the efficiency of the judicial system can be reported. The judicial system still faces difficulty in dealing with a large caseload (currently more than 1 million criminal cases are pending). The duration of judicial procedures remains very long (e.g. 655 days on average in juvenile courts trying cases involving crimes committed by children under the age of fifteen).

An encouraging development in terms of new legislation has been the adoption of the law on the prosecution of civil servants and other State officials, which was already being awaited at the time of the previous regular report. This new law, which was adopted in December 1999, aims in particular at facilitating the criminal prosecution of security forces officials. According to this law, the initiation of prosecutions is no longer subject to a preliminary agreement by the local administrative councils, which is a step forward. However, the preliminary agreement of prefects and sub-prefects remains a requirement. Further improvements are still needed in this regard. As to the draft Penal Code and the draft law amending the Code of Criminal Procedure, which had also been referred to in last year's regular report, these important laws remain to be adopted. It should be noted that the Ministry of Justice has carried out intensive internal work over the last months with a view to ensuring the compliance of draft legislation with the Copenhagen political criteria, covering such issues as the creation of a judicial police, and the setting up of an Ombudsman's office.

The question of the State Security Courts still needs to be further addressed. No further changes have taken place since the removal of military judges from these Courts in June 1999. The functioning, powers and responsibilities, as well as other provisions relating to the proceedings of these Courts need to be brought further in line with standards existing in the EU.

There is also a need to incorporate into Turkish legislation measures designed to make reparation for the consequences of convictions that have been found contrary to the European Convention of Human Rights by the European Court of Human Rights. Such measures would in particular need to ensure the restoration of civil and political rights where those rights have been restricted as a result of the conviction, the reopening of proceedings, and the clearing of criminal records.

There has been no progress in modernising the legal provisions and sanctions applicable to young offenders.

As far as the training of judges and prosecutors is concerned, several programmes and activities have been launched since 1999, covering such issues as the effectiveness of the judiciary, alternative measures for imprisonment, human rights issues, and EC Law in general. For example, on EC Law, a 2-day training programme for 150 people took place in October 2000, within the framework of Greece-Turkey co-operation. Further efforts are required to enhance training for judges, prosecutors and other personnel, especially in the field of human rights, where close co-operation with the Council of Europe would be useful. It is notably crucial to train prosecutors and judges on how to deal with cases in which suspects allege torture.

Anti-corruption measures

Since the beginning of the year, the question of corruption has been high on the political agenda, with parliamentary investigations taking place into alleged corruption cases involving two party leaders. Corruption continues to be widespread and remains a matter of serious concern.

The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was ratified by law and entered into force in February 2000. However, Turkey has not yet signed any of the Council of Europe Conventions in this domain, i.e. the Criminal Law Convention on Corruption, the Civil Law Convention on Corruption, and the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

In May 2000, the Ministry of the Interior ordered a review of corruption in the Turkish administration.

The National Security Council

There has been no change in the role played by the National Security Council in Turkish political life. Its conclusions, statements or recommendations continue to strongly influence the political process, as witnessed in the recent debate over the dismissing of civil servants suspected of links with radical Islamic and separatist movements. In addition, it appears that at present the views of the National Security Council in practice seriously limit the role played by the government. Moreover there seems to be too little accountability to the Parliament with regard to defence and security matters. It is noted that the possibility of increasing the number of the civilian members of the National Security Council is currently under debate within political and military circles.

1.2. Human rights and the protection of minorities

In August 2000, Turkey signed two major international instruments in the field of human rights: the International Covenant on Civil and Political Rights, and the International Covenant on Economic, Social and Cultural Rights. The process of ratification by the TGNA, which is to start soon, will show whether any reservations are made to any specific provisions contained in either of these covenants. There are however still other major human rights instruments to which Turkey has not yet acceded, including Protocol 6 to the European Convention on Human Rights on the abolition of the death penalty and the Convention on the Elimination of All Forms of Racial Discrimination. Turkey has also not signed the Council of Europe Framework Convention for the Protection of National Minorities and the Statute of the International Criminal Court.

Since the last Regular Report, the European Court of Human Rights has adopted a number of judgements on individual cases involving Turkey.

The overall human rights situation in Turkey is still under the monitoring procedure opened in 1996 by the Council of Europe. In this connection, a visit by the Council of Europe's "Committee on the Honouring of obligations and commitments by Member States" took place in March 2000. The report of this visit has not yet been published.

Civil and political rights

The problems in this area identified in last year's regular report remain largely unchanged, and only limited progress can be reported.

The death penalty has still not been abolished, but the *de facto* moratorium on carrying it out has been maintained, including in the case of Abdullah Öcalan. The European Court of Human Rights asked Turkey in November 1999 to defer the execution of Mr Öcalan in order to enable the Court to proceed effectively with the examination of the admissibility and merits of the applicant's complaints under the Convention. In January 2000, the Turkish government agreed to the temporary suspension of the execution until the end of this process in the European Court of Human Rights. Discussions are still ongoing on the timing of tabling a law, which would abolish the death penalty.

The situation with regard to torture and ill treatment in Turkey remains largely unchanged.

Turkish and international human rights organisations continue to report torture cases, most of which concern persons in detention suspected of "acts of terrorism or separatism"⁴. Moreover, in the limited number of cases that led to criminal convictions for torture and ill treatment, sentences have been very light. This situation contributes to maintaining a climate of impunity for law-enforcement officials.

Since May 2000, the TGNA Human Rights Committee has published nine reports on torture in Turkey, based on inspections of police stations and prisons in 1998-2000 and supported by detailed interviews with prisoners, their families and officials. Although they note improvements over the period, notably in the attitude of police and prison personnel, these reports strongly criticise the lack of supervision and inspection of the system by governors and chief prosecutors. It is hoped that the debate that has been launched in a bold manner by the TGNA Committee, together with the promises made by the government in September 2000, will be followed by concrete action, notably concerning the establishment of effective inspection mechanisms.

In the framework of the fight against torture and ill treatment, there is still an urgent need to bring legal procedures concerning pre-trial detention into line with the provisions of the European Convention on Human Rights and the relevant case law of the European Court. In particular, there should be an automatic judicial review (including the physical presentation of the detainee to the judge) of the legality of all detention in police custody at the very latest on the 4th day of detention, in line with the requirements under the European Convention of Human Rights. It is equally important that regular medical examination of the detainees by forensic doctors be ensured during the pre-trial detention period, in line with the recommendations of the Committee for the Prevention of Torture (CPT) of the Council of Europe. Finally, it should also be mentioned that a protocol signed in January 2000 between the Ministry of Justice, the Ministry of the Interior and the Ministry of Health is reported to put unnecessary obstacles in the way of visits to detainees by their lawyers.

⁴ Such as the case of a medical doctor working with the Human Rights Foundation's "Treatment and Rehabilitation Centre" in Izmir, who was tortured in October 1999 during a detention period.

Human rights education has been incorporated in the curricula of police academies since the beginning of the 1999-2000 academic year. This is a positive development. In general, training on human rights issues for law-enforcement officers is of the utmost importance, and should be reinforced, notably in co-operation with international organisations such as the Council of Europe, or EU member states.

Prison conditions (e.g. insufficient or delayed medical care for prisoners) remain a major cause for concern. Violent clashes between detainees and guards or security forces, mutinies, and the taking of hostages still occur.⁵ Ill-treatment of detainees notably during transfer between prisons is also reported. The number of prisoners in Turkey has reached the record figure of 72,500, leading to serious overcrowding. Under these conditions, the coalition government is currently debating amnesty measures. The conditions in institutions for juvenile delinquents also deserve the highest priority.

It is noted that the authorities are currently in the process of restructuring the whole prison system. 11 prisons of a new-type (so-called F-type) should be built by the end of 2000. In these prisons, small cells for 1 to 3 prisoners will replace the current big dormitories. They should receive prisoners who have been charged with membership of terrorist and interest-based criminal organisations. The other prisons should be converted to a room system with cells for 2, 4 or 6 prisoners, also by the end of 2000. While the authorities have indicated that the new-type prisons will respect the basic international requirements (i.e. European Prison Rules of the Council of Europe and UN minimum prison standards) notably regarding physical characteristics, human rights associations including those representing prisoners and their families fear that the new system will isolate prisoners, with no opportunity to socialise. Some prisoners have declared that they will resist being moved to the new prisons. Under these conditions, the authorities, while embarking on this restructuring, should take measures to avoid violence in prisons for example by ensuring greater transparency on management regimes and clarification of the rights of prisoners. They should continue to co-operate on this matter with the Committee for the Prevention of Torture (CPT), which paid a visit to Turkish prisons in July 2000. Particular attention should be attached, as recommended by the CPT, to measures ensuring that prisoners spend a reasonable part of the day engaged in purposeful activities outside their living unit.

There is still a serious problem with regard to the freedom of expression, including that in the political sphere. Existing legislation, as confirmed by many judgements of the European Court of Human Rights, still leads to interpretations that violate the freedom of expression as guaranteed by the European Convention of Human Rights. Turkish courts continue to restrict the expression of views with which the State disagrees, notably when it concerns the situation of the population of Kurdish origin. An overall reform of both legislation and practice in this field is urgently needed to avoid further violations. In the meantime, judges and prosecutors should strictly respect the case law of the European Court of Human Rights,⁶ which notably establishes that criminal liability should be confined to statements inciting to violence.

⁵ Mutinies took place in several prisons in July this year. On the case of the riot in Ankara Ulucanlar Prison in September 1999, which ended in the death of ten prisoners, the TGNA Human Rights Committee is continuing its investigation work. The Head of the Committee has however already declared in June that the prisoners had been tortured and killed intentionally.

⁶ See recent court cases such as *Sener v. Turkey* (18.7.2000) and *Ozgür Gündem v. Turkey* (16.3.2000).

As far as the media are concerned, the High Board of Radio and Television (RTÜK) created in 1994 to regulate private television and radio frequencies has continued to suspend the broadcasting of a number of radio stations. According to official sources, there are presently 40 journalists in prison.

On 20 September 2000, the Constitutional Court repealed the law adopted in September 1999 on the “postponing of prosecutions and punishment for offences committed through the press and broadcasting”. This law, which resulted soon after its adoption in the release of 27 journalists, was referred to in last year’s regular report as an encouraging measure. The Constitutional Court’s decision has been taken on the grounds that the law in question was too limited in scope and was therefore contrary to the principle of equality before law. The government is now asked by the Court to propose a revised law.

The EU has expressed major concern over the fact that Mr Birdal, former Chairman of the Human Rights Association, was brought back to prison in March 2000 in order to serve the rest of his sentence, under the terms of Article 312 of the Turkish Criminal Code. The EU notably declared that “the renewed detention of Mr Birdal constitutes a serious setback for the freedom of expression in Turkey and it is not in accordance with the spirit of the Helsinki conclusions”. Mr Birdal was released on 23 September 2000, after having completed his prison sentence. Concern was also expressed when former Prime Minister Erbakan was sentenced in March 2000 to a one-year imprisonment, under the same Article 312, for “inciting religious and ethnic hatred” in a speech he made in 1994.⁷

Freedom of association and assembly (public meetings and demonstrations) is still not fully respected. NGOs’ activities such as conferences or distribution of leaflets require official permission. NGOs are prohibited from establishing umbrella institutions and from arranging institutional collaboration with other NGOs on an international scale (unless permitted by decree of the Council of Ministers). NGOs and branches of NGOs which are active in the field of human rights continue to be subject to pressures and/or to be closed down, in particular in regions under emergency rule. In 2000 the Diyarbakir Branch of the Human Rights Association was closed and opened several times by administrative decision of the Governor without explanation. Celebrations of the 21 March Kurdish New Year, while authorised in several cities in the Southeast, were prohibited in Istanbul. It is clear that major efforts are still required to guarantee freedom of association and assembly. It should also be noted that in December 1999, the European Court on Human Rights found Turkey to be in violation of Article 11 (freedom of assembly and association) of the European Convention of Human Rights in the case of the dissolution by the Constitutional Court in 1993 of the OZDEP party (OZDEP v. Turkey 8.12.99).

As far as freedom of religion is concerned, there have been a few signs of increased tolerance towards certain non-Muslim religious communities, notably the Greek Orthodox, Armenian, Catholic and Syrian Orthodox Churches, as well as the Jewish Community. In December 1999, the authorities issued a circular according to which

⁷ The High Court confirmed this sentence in July 2000. The European Court on Human Rights, while having rejected Mr Erbakan’s request for immediate suspension of the sentence, is still examining the merits of Mr Erbakan’s case.

religious communities would not have to seek permission from the state in order to restore buildings of charitable institutions and those consecrated for worship. In general, this positive approach should be further developed, and concrete claims of non-Muslims, whether or not they are covered by the 1923 Lausanne Treaty, should be duly examined, including the issue of the continued closure of the seminar of Khalki.

The official approach towards the Alevis seems to remain unchanged. Alevi complaints notably concern compulsory religious instruction in schools and school books, which would not reflect the Alevi identity, as well as the fact that financial support is only available for the building of Sunni mosques and religious foundations. These issues are highly sensitive; however, it should be possible to have an open debate on them.

Economic, social and cultural rights

As regards cultural rights, a positive development has taken place with the judgement passed by the Supreme Court of Appeals on 31 March 2000, confirming the freedom of individuals under the Civil Code to give their children any names of their choosing (including Kurdish ones). In practice, some names are sometimes not accepted by the population registrar's personnel. The decision of the Supreme Court should pave the way for a change in the legislation.

As far as the use of languages other than Turkish is concerned, no particular problems have been reported for citizens belonging to minorities covered by the 1923 Lausanne Treaty (Jews, Armenians, Greeks). However for those belonging to groups that are outside the scope of the Lausanne Treaty the situation has not improved, notably concerning TV/radio-broadcasting and education. Law N°3984 stipulates that radio and television broadcasts will be in Turkish (with an exception for languages that will contribute to the development of universal culture and science). In practice, some broadcasting in Kurdish is sometimes tolerated.⁸ In the field of education (basic and extended education), no language other than Turkish is allowed for teaching purposes, except where explicitly authorised by the Ministry of National Education. Neither legislation nor practice should prevent the enjoyment of cultural rights for all Turks irrespective of their ethnic origin. This is of particular importance for the improvement of the situation in the Southeast, where the population is predominantly of Kurdish origin (see below).

As regards *equal opportunities*, gender disparity is still high. The illiteracy rate is roughly 25 % for women and 6 % for men, due to low school enrolment rates for girls, particularly in eastern Turkey. There is still a need for further action to improve the educational position of women. In terms of equality of treatment, conformity with the EC *acquis* is not yet ensured (see *Chapter 13 - Social policy and employment* in Part B.3.1). As far as the Civil Code is concerned, certain legal discrimination between men and women (notably concerning the family and working life of women) persist. The current regime foresees for example that the husband is the head of the family and alone

⁸ In the public debate that is taking place on the issue, it has been recalled that Article 39 of the 1923 Lausanne Treaty actually forbids “restrictions on the free use by any Turkish national of any language in private intercourse, in commerce, religion, in the press, or in publications of any kind or at public meetings”.

represents the union produced by marriage . The husband, as head of the family, is then the one that holds the right to legal custody of minors. Amendments to the Civil Code have been prepared with contributions from Women’s NGOs and are under discussion in the Parliament. The question of violence against women within the family, including so-called “honour killings”, is still an issue of serious concern.

As far as the role of *trade unions* and the right to strike are concerned, difficulties continue to exist (*see Chapter 13 - Social policy and employment* in Part B.3.1).

Concerning *children’s rights* and child labour, although laws and regulations are in conformity with the Convention on the Rights of the Child (CRC), their enforcement leaves much to be desired.

Minority rights and the protection of minorities

Turkey has not yet signed the Council of Europe Framework Convention for the Protection of National Minorities and does not recognise minorities other than those defined by the Lausanne Treaty.

Regardless of whether or not Turkey is willing to consider any ethnical groups with a cultural identity and common traditions as “national minorities”, members of such groups are clearly still largely denied certain basic rights. Cultural rights for all Turks, irrespective of their ethnic origin, such as the right to broadcast in their mother tongue, to learn their mother tongue or to receive instruction in their mother tongue, are not guaranteed (see the above section on economic, social and cultural rights). In addition, these citizens are not given opportunities to express their views on such issues.

In the case of Turkish citizens of Kurdish origin, it should be mentioned that the expression of pro-Kurdish views is still vigorously fought by the Turkish State. In February, three mayors from the Southeast belonging to the pro-Kurdish HADEP Party were accused of being linked to the PKK and imprisoned. During the same month, 18 executives from HADEP were sentenced to 3 years and 9 months of imprisonment each for initiating hunger strikes following Mr Öcalan's capture. Since the last Regular Report, several newspapers and magazines have been forbidden and certain pro-Kurdish associations have been closed in the region under emergency rule.

This question of cultural rights is of particular importance for the improvement of the situation in the Southeast, especially as the security situation there has largely improved and as Turkey is embarking on a socio-economic development programme in the region.

Since the last Regular Report, large scale armed violence in the Southeast seems to have stopped. Various sources, including the media, report that clashes between PKK armed militants and security forces have decreased to a low level. According to the estimates of the Press Office of the Chief of Staff, PKK activities continued to decrease in 1999 at a rate of 26 %, compared to 42 % in 1998. At the moment, it is difficult to assess whether this situation is the result of the declared cease-fire of the PKK or is due to other reasons. The state of emergency has been lifted in two provinces, Siirt (in November 1999) and Van (in June 2000), but remains in force in four provinces, along with the village guard system.

On the socio-economic side, the Turkish authorities have begun to step up efforts in order to improve the level of development of the region. Further substantial efforts are required for example with respect to education, health and water supplies. The authorities have

also shown the will to allow a partial return of the population in villages and hamlets evacuated in the past for security reasons.

1.3. The Cyprus issue

Further to UN Security Council Resolution 1250 of 29 June 1999 which invited the Greek and Turkish Cypriot leaders to engage in direct negotiations, the first round of “proximity talks” started in New York on 3 December 1999. This round was held with the aim of preparing the ground for future substantial direct negotiations on the Cyprus problem.

At its meeting on 10 and 11 December 1999 in Helsinki, the European Council welcomed the launch of the talks aiming at a comprehensive settlement of the Cyprus problem on 3 December in New York and expressed its strong support for the UN Secretary-General’s efforts to bring the process to a successful conclusion. Second and third rounds of proximity talks took place in Geneva in February and July 2000, without significant discussion of issues of substance. A fourth round of proximity talks was held in New York in September. Mr. de Soto, the UN Secretary-General’s Special Adviser for Cyprus, reported that in this round the two sides had engaged in substantial discussion, which he regarded as a “qualitative step forward”. He had put on the table ideas on the four core issues: territory, property, security and constitution, but he stressed that they were not formal proposals at this stage. The next round of talks is scheduled for early November in Geneva. Turkey, as a guarantor country, should continue to deploy every effort to reach a comprehensive solution to the Cyprus issue under the auspices of the United Nations.

In June tensions arose around the renewal of the mandate of UNFICYP. The Turkish Cypriot leadership imposed more restrictive conditions on the presence of UNFICYP in the north. Moreover, Turkish troops have made a small advance at one point in the buffer zone where a village with four Greek Cypriot families is located. This has given rise to a series of protests, including protests from the UN Secretary-General.

As regards the ruling of the European Court of Human Rights that Turkey had committed a continuing violation of the rights of a Greek Cypriot, Ms. Loizidou, by preventing her from going to her property in the north, the Committee of Ministers/Deputies of the Council of Europe adopted a second Interim Resolution in this case in July 2000. In the Resolution, the Committee of Ministers emphasised that “the failure on the part of a High Contracting Party to comply with the judgement of the Court is unprecedented”, declared that “the refusal of Turkey to execute the judgement of the Court demonstrates a manifest disregard for its international obligations” and strongly insisted that “Turkey comply fully and without any further delay with the European Court of Human Rights’ judgement of 28 July 1998.”

There are estimated to be around 150-200 similar cases brought by Cypriots against Turkey now pending before the Court of Human Rights.

1.4. General evaluation

A positive development since the last regular report is the launching in Turkish society of a wide-ranging debate on the political reforms necessary with a view to accession to the EU. Two important initiatives have been taken in this context: the signing of several international human rights instruments and the recent endorsement by the government of the work of the Supreme Board of Co-ordination for Human Rights. However, compared

to last year, the situation on the ground has hardly improved and Turkey still does not meet the political Copenhagen criteria.

The basic features of a democratic system continue to exist but Turkey is slow in implementing the institutional reforms needed to guarantee democracy and the rule of law. Changes in the executive have taken place with respect to EU-Turkey relations but a number of basic institutional issues, such as civilian control over the military, remain to be addressed. With regard to the judiciary, the new procedure facilitating the prosecution of civil servants is an encouraging development. The important draft laws related to the functioning of the judiciary referred to in last year's regular report are still pending. No further improvement has taken place concerning the State Security Courts since the last reform of these Courts in June 1999. Corruption remains a matter of concern.

The death penalty is not being carried out, including in the case of Abdullah Öcalan, but many aspects of the overall human rights situation remain worrying. Torture and ill treatment are far from being eradicated, even though the matter is taken seriously by the authorities and the parliament and training programmes on human rights are being implemented. Prison conditions have not improved, although Turkey is embarking on a substantial reform of its prison system. Freedom of expression as well as freedom of association and assembly are still regularly restricted. A positive approach seems to be adopted towards non-Muslim communities with regard to freedom of religion, but this should be developed for all religious communities, including non-Sunni Muslims.

Compared to last year, the economic, social and cultural rights situation has not improved, particularly when it comes to the enjoyment of cultural rights for all Turks irrespective of ethnic origin. The situation in the Southeast, where the population is predominantly Kurdish, has not substantially changed.

2. Economic criteria

2.1. Introduction

In its 1989 Opinion on *Turkey's* application for EC membership, the Commission concluded:

“Turkey’s economic and political situation, ... , does not convince it that the adjustment problems which would confront Turkey if it were to accede to the Community could be overcome in the medium term”.

This finding was confirmed in the 1998 and 1999 Regular Reports. In its 1999 Regular Report, the Commission found that:

“Turkey has many of the characteristics of a market economy. It should be able to cope, albeit with difficulties, with competitive pressure and market forces within the Union, provided sustainable macroeconomic stability is attained and there is further progress towards the implementation of legal and structural reform programmes.”

In examining the economic developments in Turkey since the 1998 Regular Report, the Commission’s approach was guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the previous Regular Reports.

2.2. Economic developments

The Turkish economy is in the process of recovering from a sharp recession in 1999, when real GDP declined by 5% and unemployment rose to 7.6% of the labour force. The main reasons for the slowdown were a combination of the 1998 consolidation programme, the Russian crisis and the earthquakes in August 1999. In December 1999, the Turkish government launched a comprehensive 3-year macroeconomic dis-inflation and fiscal stabilisation programme. The main target is to bring down chronically high inflation and interest rates and to consolidate public finances. A crawling exchange rate peg and low increases of public wages and government supported prices are successfully supporting the decline in inflation. Nevertheless, inflationary expectations of Turkish households seem to lag somewhat behind the targets of the government. Fiscal performance in 2000 has been strong and the consolidation is proceeding even slightly faster than targeted. The economic growth has resumed in 2000, based on booming domestic demand, which also benefits from the sharp decline in real interest rates. Import growth is very strong, which has led to a rapid deterioration of the trade and current account balances. Volatile investment behaviour and the insignificant foreign direct investment inflows still indicate still a cautious attitude on the part of investors on the

Turkey		1996	1997	1998	1999	2000 latest
Real GDP growth rate	Per cent	7.0	7.5	3.1	-5.0	5.7 Jan-June
Inflation rate (CPI)						
- annual average	Per cent	80.4	85.7	84.6	64.9	60.4 Jan-Sept
- December-on-December	per cent	79.8	99.1	69.7	68.8	49.0 Sept
Unemployment rate, end-year						
- ILO definition ⁹	Per cent	6.0	6.7	6.8	7.6	8.3 Jan-March
General government budget balance ¹⁰	Per cent of GDP	-8.4	-7.9	-7.7	-11.5	:
Current account balance	Per cent of GDP million €	-1.3 -1,919	-1.4 -2,326	1.0 1,669	-0.7 -1,286	-6.0 Jan-June -5,824 Jan-June
Foreign debt						
- debt export ratio	Per cent	130.5	122.8	118.8	155.7 E	:
- gross foreign debt	million €	52,972	63,692	66,609	87,322 E	:
Foreign direct investment in flow						
- balance of payments data	Per cent of GDP million €	0.4 569	0.4 710	0.5 838	0.4 763	0.1 Jan-June 177 Jan-June

E = Estimates

prospect of the short and medium-term macroeconomic stability and the reform programme.

In order to support and safeguard macroeconomic stabilisation, the government's stabilisation programme relies on an ambitious list of structural reforms to be implemented over the next three years. The reform agenda covers practically all key areas: public finances, public administration, the privatisation of state enterprises, the banking and the agricultural sector and the social security system.

The programme is supported by a 3-year stand-by arrangement concluded with the IMF and economic and financial sector reform programmes agreed with the World Bank. Preparations for a public sector reform programme are at an advanced stage. In the last year, public sector reform has improved the efficiency of the tax administration and the number of extra-budgetary funds was reduced. Important steps in the liberalisation of the telecommunication sector have been taken and a regulatory body has been established. With respect to the financial sector reform, the legislative framework has been improved and the Bank Regulatory and Supervisory Board has been established. However, the preparations for the privatisation of the four state-controlled banks, accounting for nearly 40% of total assets, are not completed yet. Important steps in liberalising the energy market have been taken.

⁹ Force: 15+ age; Average of April and October 1997,1998,1999 Household Labour Force Survey revised results. The studies on 1995 and 1996 data are still continuing.

¹⁰ Excluding local authorities.

Main indicators of Economic Structure in 1999		
Population (average)	thousand	64,330
GDP per head ¹¹	PPS-€	5,881
	Per cent of EU average	28
Share of agriculture ¹²		
in:	per cent	14.3
- gross value added	per cent	41.3
- employment		
Investment-to-GDP ratio ¹³	per cent	20.3
Gross foreign debt/GDP ¹⁴	per cent	50.5
Exports of goods & services/GDP	per cent	21.6
Stock of foreign direct investment	million € € per head	25,434 395
(End of 1999 –National Source)		

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

As set out in Agenda 2000, the existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

The coalition government has maintained an unprecedented consensus on the essentials of economic policy. The government managed to bring through parliament important

¹¹ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹² Agriculture, hunting, forestry and fishing.

¹³ Data refer to Gross fixed capital formation as % of GDP.

¹⁴ The 1999 data for foreign debt are estimates.

economic reform proposals, illustrating its commitment and determination to implement its ambitious reform programme. In mid-July 2000, parliament has approved the 8th 5-year plan setting medium-term targets for economic consolidation, social and regional development and legal reform. There is a general consensus on the need for the reforms, despite some protest against the short-term social costs of the consolidation programme. Consultations with the social partners, including the trade unions, during the preparation of the programme could have been better. It is important that this programme is followed or accompanied by medium-term measures to address the social problems. Policy co-ordination among the various line ministries needs improvement.

The Turkish economy has recovered from the negative external shocks, caused by the Russian crisis in 1998 and the earthquakes in autumn 1999. After a sharp output contraction, with a drop of real GDP by 5.1% in 1999, real GDP increased by more than 5% during the first half of 2000. The main contribution came from private consumption, boosted by the sharp decline in real interest rates and increased availability of cheap consumer loans. This led to a strong rise in the demand for consumer durables, which had been postponed during the recession in 1998 and 1999. Private and public sector investment also rose sharply, reflecting declining financing costs and the reconstruction after the earthquakes. Import growth was particularly high during the first half of 2000, as a result of strong domestic demand, the increasing oil price and the appreciation of the Turkish lira. At the same time, export revenues were dampened by the real appreciation of the Turkish lira. Industrial production rose by 3.4% during the first seven months of the year. This figure is below the sector's long-term growth potential and indicates that the recovery has not yet reached all sectors of the economy.

Unemployment has increased considerably. As a result of the economic slowdown in 1998 and 1999, the unemployment rate rose markedly during 1999, reaching the highest level since the financial crisis in 1994. According to an ILO compatible survey, the overall unemployment rate rose from 7.3% in April 1999 to 8.3% in the first quarter of 2000. There are huge differences in the unemployment rates between urban areas, where they are above 10%, and rural areas with unemployment rates of around 5%. When assessing those numbers, underemployment, which is reflected in a low participation rate of only 47% (first quarter of 2000), has to be taken into account.

The most noteworthy macro-economic effect of the economic programme has been the remarkable decline in interest rates and the reduction in inflation. After the announcement of the programme, interest rates fell immediately, from around 100% at the end of 1999 to about 45% in mid-January and to around 35% in mid-2000. Consumer price inflation increased initially, reaching a 12-month rate of 69.7% in February 2000, reflecting price effects of the earthquake tax package and higher administrated prices. By September 2000, the 12-month consumer price inflation had come down to 49%, the lowest value since the early 1990s. The decline in core inflation is close to the target. The nominal exchange rate anchor and the dis-inflationary stance of the government played a central role in reducing inflation. The government is no longer applying backward indexation to public sector wages and agricultural support prices, but uses the inflation target as a guideline for wage and price setting. In addition, the Central Bank applies a pre-announced crawling peg linked to the targeted increases in the Wholesale Price Index instead of simply accommodating inflation. The government programme anticipates CPI inflation declining to 25% by the end of 2000, and reaching single digit values by the end of 2001. Despite indications of a somewhat lagging adjustment process of the

population's inflationary expectations, the programme has been successful in establishing a downward trend in this respect.

In order to increase predictability, a pre-announced path for monetary and exchange rate policy has been defined. The consolidation programme has some features of a currency board arrangement in the critical early dis-inflationary period, with a transition to a floating exchange rate. Therefore, according to the programme, the exchange rate should depreciate, in line with targeted year-end wholesale price inflation, by 20% in 2000 and 10% in July 2001. As in a currency board, net domestic assets would remain unchanged, allowing monetary expansion only through surplus in the balance of payment. From July 2001, the exchange rate band would widen by 5% every 6 months, until the lira is effectively floating.

The situation of the public sector accounts improved significantly. Thanks to the stronger than expected recovery and the expenditure discipline, fiscal consolidation at present is slightly better than targeted. For 2000, the programme's key fiscal target is to raise the primary surplus of the public sector from $-2\frac{3}{4}\%$ of GDP in 1999 to $+3\frac{3}{4}\%$ of GDP in 2000. This excludes extraordinary earthquake related fiscal expenditures, amounting to about $1\frac{1}{2}\%$ of GDP. At the end of November 1999, the parliament approved an "earthquake tax package", which is expected to raise revenues by about 2% of GDP in 2000. It included an increase in income and profit tax rates and excise taxes, and the introduction of a new tax on mobile phones bills. In addition to the earthquake package, direct and indirect taxes, like the income tax and the VAT rate have been raised, which should contribute nearly 3% of GDP in additional revenues. On the expenditure side, cuts in investment and current spending, including public sector wages, should further improve the deficit by 0.6% of GDP. In addition, structural measures approved in 1999, such as the pension reform, should reduce state transfers to the social security fund by 0.5% of GDP. Many of the measures in 2000 are of a one-off nature, which are planned to be replaced by more permanent measures in 2001. These are needed to assure the medium-term sustainability of the budget and will need to take into account the budgetary costs of reforming the banking sector. In order to increase the transparency of public sector finances, 27 of the 61 extra-budgetary funds have been dissolved so far. Further efforts are needed in this regard. As a result of the rather high public sector borrowing requirement, net public debt rose sharply from 44.5% of GDP in 1998 to 62% in 1999.

After a strong decline in trade flows in 1999, imports have been booming in the first half of 2000. In 1999, real commodity exports declined by $2\frac{1}{2}\%$, while real commodity imports declined by $18\frac{1}{4}\%$. The decrease in exports occurred mainly in trade with CIS countries, while exports to the EC increased by about 3%. The decline in imports was more evenly distributed among trade partners. However, during the first half of 2000, trading volumes have recovered. In particular, real imports increased sharply, rising by 30% compared to the first half of 1999. Real exports rose by 15.3% in the same period, mainly driven by higher demand from the OECD countries.

The current account balance has been deteriorating rapidly in 2000. The strong import increase and the ensuing rising trade balance deficit were the main causes of the deterioration. Although tourist revenues rose by about 5% in the first half of 2000, they compensated only a small fraction of the trade balance deterioration. As a result, the current account deficit jumped to nearly 6% of GDP. Foreign lending, part of which is short-term, still easily finances the rising current account deficit, as the Turkish government, the banking sector and the enterprise sector have easy access to international capital markets. However, this dependence makes the country vulnerable to changes in

market confidence. The inflows of foreign direct investment are still insignificant and hence do not contribute to financing the current account deficit.

In general, the equilibrium between demand and supply is established by the free interplay of market forces and commodity trade is liberalised. However, there are considerable areas of state influence and non-market behaviour. As an inheritance of a past when the state actively tried to push industrialisation by setting up import substituting state industries, the state still owns a number of companies in the basic industry sector providing inputs for the private processing industry. These enterprises account for about 8% of GDP and employ about 400.000 persons. In many cases they are over-staffed, inefficient and can only survive through state subsidies. The share of administrated prices in the CPI basket is relatively high at around 25%. Those prices not only consist of public utility fees but also prices for raw materials, provided by State Economic Enterprises. In general, administrative prices are not cost covering. Some state banks have been used as instruments for channelling subsidised credits to specific sectors, like agriculture. Those transactions were covered as “duty losses” by state transfers to these banks. These credit subsidies were phased out in early 2000.

For the first time since the beginning of the Turkish privatisation process in the mid-1980s, the present government has achieved significant results. A considerable share of those enterprises which were earmarked for privatisation, have been sold so far, generating privatisation revenues of nearly 3% of GDP during the first 8 months of 2000. The most noteworthy privatisation projects were the sale of the 51% stake of the petrol distributor Poaş and the initial public offering of the oil refinery Tüpraş. In addition, the sale of a third GSM licence brought significantly higher revenues than expected. The delay in privatisation of Türk Telekom will probably prevent the government from meeting its privatisation revenue target of about 3½% of GDP in 2000.

There are no major restrictions on market entry and exit. During the first half of the year about 27 500 new enterprises were established, which is about 15% of the total number of enterprises. In the same period, about 8 300 enterprises were liquidated. Compared to the same period a year before, the number of newly established enterprises declined by 2%, while the number of liquidated enterprises rose by nearly 40%. These numbers indicate a high turnover in the enterprise sector and an adequately functioning market exit mechanism. But it is also an indication of the need to improve the managerial skills of the new entrepreneurs.

The legal system for the functioning of a market economy is in place. Property rights are clearly established. However, financial regulations and the implementation of existing legislation need to be improved. In addition, the efficiency and transparency of the legal system need to be increased further. The entrepreneurial climate is getting better, given the declining economic volatility and active measures of the government to reduce administrative and fiscal barriers for the enterprise sector.

The Turkish financial system is under heavy pressure to restructure. Due to the banks' strong concentration on financing the public sector deficit, they largely failed to channel savings towards productive investment. The four state-controlled commercial banks account for about 40% of the sector's assets. As a result of decades of providing subsidised and state directed lending for agricultural and small businesses, huge “duty losses” have accumulated. This endangers the safety and soundness of the banking sector. The government has announced its intention to sell the state-owned banks in the near future. Due to the recession in 1999, the ratio of non-performing loans to total assets for

the whole sector rose from 2.7% in 1998 to 3.2% in 1999, which remains a relatively low level, largely due to low private sector lending.

The implementation of prudential rules and supervisory regulations has to be strengthened. The importance of improved surveillance and supervision in the financial sector is illustrated by the huge losses of those eight banks, which were transferred to the Deposit and Savings Insurance Fund in December 1999. The issue of winding up or restructuring those banks is not solved yet. In addition, the fact that some of the financial institutions are part of business conglomerates poses additional problems of supervision and transparency. In order to address these issues, the new banking law, adopted in June 1999, was amended in December 1999. The main improvements concern the establishment of the independent Banking Regulatory and Supervisory Board, an upgrade of the prudential rules to meet the Basle standards, and the introduction of a six year time frame in order to comply with EC standards on exposure limits. In addition, those amendments include improvements with respect to accounting and disclosure standards, capital adequacy rules and the foreign exchange exposure regulation. The Banking Regulatory and Supervisory Board has been fully operational since early September 2000. Given the short period of implementation, there is little evidence on which to assess the effectiveness of these amendments and the functioning of the Banking Regulatory and Supervisory Board.

Turkey has made considerable progress in addressing the most urgent imbalances in the economy, yet the process of achieving a functioning market economy is not completed. Macroeconomic stability is improving, although inflation is still too high and a solid basis for sustainable public finances in the medium term remains to be established. The privatisation of state enterprises has been successful, and important steps for the reform of the agricultural sector, the social security system and the financial sector have been taken. However, there are still too many areas where state dominance implies market distortions. In order to cure such chronic deficiencies and to awake Turkey's slumbering growth potential, the authorities should continue to focus on bringing down inflationary pressures and public deficits, and maintain their commitment to structural reforms and market liberalisation.

The capacity to cope with competitive pressure and market forces within the Union

As set out in Agenda 2000, Turkey's ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Both the volume and the range of products traded with EC Member States provide evidence of this.

Despite the progress in reducing macroeconomic volatility and diminishing market distortions, a track record and sufficient degree of economic stability and predictability has not yet been achieved. The level of inflation and the uncertainty concerning the

consolidation progress still do not allow economic agents to plan their activities in a medium-term perspective. The influence of the state through state enterprises, administrated prices and subsidised credits has for years distorted the allocative function of the market, which would hamper the economy's ability to withstand competitive pressures within the Union.

The quality of Turkey's physical infrastructure facilities is very uneven. The road network in general is sufficiently well developed, in particular in the urban agglomerations, while the railway system is largely outdated and inefficient, representing a sizeable burden on public finances. With respect to the energy network, considerable investment took place in recent years. At present, several oil and gas pipeline projects are being carried out and the energy network is being improved.

Parts of Turkey's capital stock needs up-grading. Up-to-date production technologies in the export-oriented industries exist in parallel with technologies with relatively low capital intensities, benefiting from cheap labour and informal sector inputs. Private investment remains volatile, with annual growth rates fluctuating between +25% (in 1994) and -16% (in 1999). The aggregate average investment share of over 20% of GDP is relatively high. However, when non-housing investment is taken into account, the situation is less favourable. Access to the financial sector has been extremely difficult for private companies outside the conglomerates, and in particular for SMEs, due to the specific structure of the financial sector and the crowding-out effect of government borrowing.

Turkey needs to invest more in the development of human capital. Although part of the labour force is highly educated and familiar with modern technologies, the level of education of a considerable share of the population is low, with relatively high illiteracy rates. Nearly half of the population is younger than 20 years and the resources for the basic education system have so far proved to be insufficient so far for providing adequate education. A relatively high level of child labour further aggravates this problem, in particular in the agricultural sector. According to OECD estimates, about 30% of the children in the age group between 6-14 years are participating in the labour process instead of attending school. With respect to school enrolment, there has been some improvement in recent years, but in order to safeguard and prolong these achievements, increased means for education would be necessary. A poor health record in general and of this age cohort in particular is a further alarming characteristic of the Turkish labour force. A poverty-trap like situation of low education, poor health and low incomes would impair a sound social development and the growth potential of the Turkish economy.

In the Turkish private sector, enterprise restructuring has been a well-established process since the 1980s, when the economy was increasingly exposed to international competition. However, in public sector enterprise restructuring is an important issue, since many are over-staffed, endowed with an outdated capital stock and are in a permanent need of state support in order to survive. The government intends to privatise most of these enterprises in by the end of 2002, targeting privatisation revenues of about 8% of GDP. The process of restructuring and preparing for privatisation has already started in some state enterprises and the cost involved is considerable. Privatisation revenues will be used to partly finance them. This policy will release public finances from notoriously less productive uses, such as subsidies and state-aids, and will support the economy's competitiveness in the medium-term.

Foreign direct investment is at an economically insignificant level of less than 0.5% of GDP. Macroeconomic instability, growth volatility and political uncertainty were probably the most important factors for this development. The change in the constitution, which was approved by parliament at the end of 1999 in order to allow for international arbitration and for privatisation in particular in the energy sector, has not yet shown noticeable results. To simplify procedures, the need for authorisation to carry out foreign direct investment has recently been replaced by a regime of simple registration. The completion of privatisation projects in 2000 should increase the inflow of foreign capital significantly.

Restructuring the agricultural sector is another medium-term issue that needs to be tackled. Agriculture accounts for over 40% of employment but generates about 14% of GDP. The average farm size is decreasing, and productivity growth is low compared to international standards. The financial support system represents a heavy burden on public finances, distorts prices and the allocation of resources, and aggravates social disparities, since the artificially high prices for agricultural commodities are disproportionately affecting low-income households. The government's new approach so far has been to reduce support prices in line with the inflation target, and to end subsidised credits to the agricultural sector. The reform of the agricultural sector aims at switching to a system of direct income support for farmers. Given Turkey's resource endowment, this sector has a considerable potential. However, in order to improve the sector's competitiveness and sustainability, the initiated reform has to be sustained and deepened.

Regional disparities are traditionally very high in Turkey, with a well-developed industrialised western part and a less developed predominantly rural eastern part. In addition within the regions, there are considerable differences in income levels and infrastructure endowment between the urban agglomerations and the countryside. The result of those huge disparities have been strong migration flows from the East to the West and from the rural to the urban areas, leading to the over-utilisation of urban infrastructure and considerable administrative bottlenecks at the municipal level. Government measures trying to address the increasing regional disparities have not been sufficiently successful so far.

State interference has been declining. The government has undertaken some first steps in order to reduce state interference, by starting to reform the agricultural sector and liberalising the electricity and gas sectors. State aids are also being reduced. The privatisation and restructuring of state-owned enterprises is also a step in the right direction. But influence can still be asserted through the state-owned banks.

Trade integration with the EU is relatively high. Turkey's trade liberalisation started in the 1980s, leading to the establishment of a customs union for manufactured commodities between Turkey and the EC, which has been in force since 31 December 1995. The major economic effect of the customs union was a redirection of Turkish third-country imports towards the EC. Turkish enterprises had no major problems in adjusting to the new competitive situation. At present, an extension of the trade liberalisation to the service sector is being discussed. The trade integration between Turkey and the EC rose continuously, reaching a trade share of more than 50% of Turkey's total trade. Simultaneously, the commodity structure of Turkey's trade improved, with the share of manufactured commodities rising from 66% of trade with the EC in 1990 to nearly 70% in 1999. In particular, the value-added in the key automotive and textile industries increased markedly. The share of intra-industry trade with the EC is relatively high.

However, due to the recent real appreciation of the Turkish lira, the price competitiveness of Turkish commodities has deteriorated.

Small and very small family companies are the backbone of the Turkish private sector. In the manufacturing sector they account for 99.5% of the total number of enterprises, employ about 65% of total employment and generate 27.3% of value added. Despite their proven adaptability and flexibility, these companies might face difficulties to apply EU standards (see also chapter 16 – Small and medium-sized enterprises).

Considerable parts of the Turkish economy are already able to sustain competitive pressure and market forces in a customs union with the EC. However, reforms are needed in order to extend this situation to the whole of the Turkish economy, while fostering better-balanced socio-economic and regional development. The economy has not yet reached a sufficient degree of macro-economic stability to allow proper medium-term planning. The differences in education, health and infrastructure need to be narrowed, in order to enhance the competitiveness of Turkish human and physical capital and to allow for a decline in the present social and regional disparities. The government needs to redefine its priorities, in a medium-term perspective, in order to provide sufficient funding for education, health, and social services. Significant restructuring is still needed in various sectors, such as banking, agriculture and state enterprises, in order to guarantee medium-term competitiveness for the economy as a whole.

2.4. General evaluation

Turkey has made considerable progress in addressing the most urgent imbalances in the economy, yet the process of achieving a functioning market economy is not completed. Considerable parts of the Turkish economy are already able to sustain competitive pressure and market forces in a customs union with the EC.

Turkey has made substantial progress in macroeconomic stabilisation. The privatisation of state enterprises has been successful, and important steps for the reform of the agricultural sector, the social security system and the financial sector have been taken.

However, macroeconomic stability is not yet achieved and a solid basis for sustainable public finances in the medium term remains to be established. There are still too many areas, both in manufacturing and the financial sector, where state dominance implies market distortions. The quality of education, health and infrastructure needs to be improved in order to enhance the competitiveness of Turkish human and physical capital and to allow for a decline in the present social and regional disparities.

The authorities should continue to focus on bringing down inflationary pressures and public deficits, and maintain their commitment to structural reforms and market liberalisation. They need to redefine their priorities, in a medium-term perspective, in order to provide sufficient funding for education, health, and social services. Significant restructuring is still needed in various sectors, such as banking, agriculture and state enterprises, in order to guarantee medium-term competitiveness for the economy as a whole.

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 1999 regular report on Turkey's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 1999 regular report, this section seeks to provide an overall assessment of Turkey's ability to assume the obligations of membership, and of what remains to be done. This section has been structured to follow the list of twenty-nine *acquis* chapters, and incorporates also an assessment of Turkey's administrative capacity to implement the *acquis* in its various aspects (in previous regular reports this had been covered in a separate section).

The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme, in Agenda 2000 the Commission underlined the importance of incorporating Community legislation into national legislation effectively, and the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

The European Council in Feira in June 2000 recalled the importance of the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this called for important efforts by the candidate countries in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter. Building on the assessment of Turkey's administrative capacity provided in the 1999 regular report, the present report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 1999 regular report, the Commission concluded that :

“Turkey continues to make most progress in alignment in the areas covered by the Customs Union and, to a lesser extent, in areas covered by the European strategy. In general terms the situation with regard to free movement of goods is satisfactory and Turkey has reached a high level of adoption of European standards even if it has still not adopted a framework law. Despite the high degree of alignment in the customs area there is still a need for a new customs code. The Customs Union was further developed in the last year through the establishment of a common system of outward processing for textiles. There is a need for early progress in the area of copy right law. Although there has been no recent progress in the area of capital movements the general situation is good and the recent adoption of a new Banking act has brought further alignment.

In competition there has been progress in the area of anti-trust although the Commission remains concerned about the operation of the TEKEL monopoly. Turkey has notified its state aid schemes to the Commission and these are under examination. Agriculture is still characterised by high levels of support and protection and there has been no progress in legislative alignment since the last Report.

The administrative capacity to apply the *acquis* in the context of the Customs Union remains very satisfactory. However, Turkey needs to further modernise its administrative structures and to increase staff training.”

3.1. The chapters of the *acquis*

As indicated, the review of Turkey’s ability to assume the obligations of membership that is provided below has been structured in accordance with the list of twenty-nine chapters of the *acquis*. Accordingly, this section opens with an assessment of progress related to the so-called “four freedoms”, the cornerstones of the internal market, and continues with a systematic review of progress on each of the chapters, to cover the *acquis* in all its various aspects: sectoral policies, economic and fiscal affairs, economic and social cohesion, innovation, quality of life and environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

Since the last Regular Report, according to the relevant Turkish authorities, around 1200 **standards** were adopted. The Customs Union foresees the alignment of Turkish technical regulations before the end of 2000. At present 80 % Turkey Standards are aligned to CEN standards, and 80% to CENELEC standards.

In the area of **conformity assessment**, no development can be reported.

In the area of **accreditation**, a new Law on the Organisation and Functions of the Turkish Accreditation Council (TURKAK) entered into force on 4 November 1999. It authorises TURKAK to accredit national and foreign organisations to conduct laboratory services, certification and inspection. The General Secretary and other office holders were designated at the first General Assembly of the Turkish Accreditation Council, which took place on 15 May 2000. The total number of staff is 60. Turkey intends to make use of a pool of temporary technical staff.

With regard to **sector specific legislation**, since the last Regular Report, progress can be noted in the area of motor vehicles, where six Directives were transposed between November 1999 and April 2000.

No progress has been recorded in the following areas, already highlighted in the previous Regular Report: transposition of directives for pharmaceutical, chemical and homeopathic drugs, pricing practices, immunological medicinal products, human blood derivatives, distribution, classification, labelling, adoption of directives concerning cosmetics.

In the field of **non harmonised areas** and **public procurement**, no progress can be reported.

Concerning **public procurement**, new legislation is being prepared by the Ministry of Finance. The present public procurement system should be made more transparent and accountable

Overall assessment

Concerning **conformity assessment** there is a need to upgrade the existing conformity assessment system to ensure that progress is in line with legal harmonisation. Problem areas to be addressed relate to insufficient knowledge of the existing conformity assessment structures in the EC and the lack of adequately trained technical staff.

In the area of **market surveillance**, current efforts are concentrated on training the relevant personnel and in improving the equipment capacity of the relevant bodies.

Concerning **horizontal and procedural matters**, in some sectors (based on the product specific approach) alignment with the *acquis* is already in place. However, Turkey still needs to complete the process of adoption of the framework law relating to the Preparation and Implementation of the Technical Legislation on Products. This law aims to create the legal basis for legislation to facilitate harmonisation with the European Community and to provide the essential principles required for the implementation of the European standardisation system in Turkey.

The delays in adopting the framework law have had negative consequences for the planned adoption of five implementing regulations, which are already prepared and cover specific issues - CE conformity marking; conformity assessment bodies and notified bodies; market surveillance; notification procedures between Turkey and the EC; and exchange of information on national measures derogating from the principle of free movement. It has also delayed the adoption of separate *New Approach* directives.

It is important that the framework law containing the technical legislation on products be rapidly adopted and implemented, in order to make the necessary progress on the transposition of the *acquis* in this field.

As regards **sector specific legislation**, regulations under the new approach transposing the directives on personal protective equipment, recreational craft, machinery, low voltage, electromagnetic compatibility, lifts, civil explosives, gas appliances, pressure vessels, medical devices and toys, which have been prepared, have not yet been adopted.

In addition, Turkey is preparing legislation to transpose EC legislation in a number of sectors including motor vehicles, construction plant and equipment, measuring instruments, textiles, medicinal products, crystal glass. However, further progress must be made in these areas.

The transposition of the foodstuffs *acquis* has just begun, in particular in the field of food additives, and the methodology of transposition needs to be assessed carefully. The implementation and enforcement of the transposed *acquis* represents an important challenge due to the necessity to reform the food industry substantially to meet EC requirements.

The implementation of EC legislation on elimination of technical barriers to trade is limited, particularly in view of the deadline for technical harmonisation by 31 December 2000 that was set by Decision 2/97 of the EC-Turkey Association Council. The rate of adoption of European standards is generally satisfactory, but further substantial progress needs to be made. On different occasions standardisation issues have led to barriers in trade. Therefore, further alignment of standards is still needed.

Concerning **administrative and judicial capacity** the Turkish Standards Institute (TSE) is responsible for aligning Turkish standards with EC norms. However, TSE rules and practices sometimes diverge from EC and international standards, causing considerable costs and long delays. The problem is the result of incorrect application of existing standards as well as the insufficient capacity of the TSE to carry out the work especially in the field of testing. Major problems on technical regulations exist in the areas of electrical and electromechanical devices, and also with respect to products such as tiles and ceramics. The TSE has applied for full membership of both CEN and CENELEC, which could be realised in 2001. The TSE employs 1214 full time staff. Some 4500 experts also participate in the work of the TSE.

The Ministry of Agriculture has the responsibility for the food sectors. Other competent Ministries should also be involved in the transposition and implementation of the foodstuffs *acquis*.

Concerning **public procurement**, the Ministry of Finance is responsible for the management, financial control and regulation of public expenditure. The Ministry issues an approval stamp assessing the regularity of all contracts between public bidders and the contractors. There is no authority in charge of verifying the regularity of public tender procedures, but the ordinary tribunals have competence in this matter.

Chapter 2: Free movement of persons

In the area of **mutual recognition of professional qualifications** no progress was made. Holders of European diplomas and professional qualifications who are granted equivalency certificates in Turkey still do not get access to a large number of professions. These are still restricted to Turkish nationals. No progress can be reported on **Citizens' rights**.

No development can be reported in the area of **free movement of workers**.

Overall assessment

In the area of mutual recognition of professional qualifications as well as Citizen's rights no progress has been made since 1999. The issue of free movement of workers needs to be the subject of mutual consultations.

Chapter 3: Freedom to provide services

Little progress has been made in the field of the liberalisation of services, in particular in **non-financial services**. At present, the supply of non-financial services is not aligned with the *acquis* and numerous restrictions and national preferences concerning the freedom to provide non financial services still exist in Turkey. These should be abolished. However, since the previous Regular Report, the negotiations for extension of the Customs Union to services and public procurement have started (in October); this will facilitate the alignment by Turkey with the EC *acquis*. With respect to **financial services**, The Turkish *banking sector* is adapting to the new legislative framework set by the Bank Act of June 1999. *Inter alia*, the coverage of savings and deposits by the deposit guarantee scheme is being reduced from 100% to reflect EC standards by the end of 2000.

The Banking and Regulatory and Supervision Board has become fully operational, taking up the duties previously carried out by the Treasury and the Central Bank . This system ensures sufficient independence from the political powers.

In the field of *insurance* and other financial services no major progress to align with the *acquis* can be recorded since the previous regular report.

The Capital Market Law regulating *investment services and securities markets* was amended in December 1999, introducing the protection of the rights of shareholder minorities , and introducing an investor protection fund.

Overall assessment

Concerning the provision of **non financial services**, foreign nationals are requested to set up a joint company or a limited liability company with a Turkish counterpart national resident in order to make investments or to carry out commercial activities. Moreover foreign residents need a permit and/or an incentive certificate issued by the General Directorate of Foreign investments of the Undersecretariat of Treasury. The question of acquisition of real estate/farmland needs to be carefully checked.

Liberalisation and alignment with the *acquis* are more advanced in the field of **financial services**. Concerning *insurance*, the freedom to provide insurance services is not yet complete in Turkey, as specific restrictions on providing these services exist. The *insurance market* is under the authority of the Directorate General for Insurance of the Undersecretariat of the Treasury (UST), and of the Insurance Supervisory Board (ISB), which also reports to the UST, which it itself attached to the Minister of State for Economic Affairs. Therefore, these bodies can not be qualified as being independent.

The ISB may conduct ad hoc inspections in companies if it detects any irregularity in the functioning, and should inspect companies once a year.

In the field of *investment services and securities market*, since 1989 there has been no restriction on operations by foreigners, nor on the repatriation of funds involved in portfolio investments by foreigners. Since 1999, additionally, non-resident intermediaries have been allowed to operate in Turkey, under the supervision of the Capital Market Board (CMB).

The Capital Market Board is the authority monitoring the *investment services and securities market*. It is autonomous and self financed by a 0.25% fee on transactions, and has a staff of 366. It can carry out autonomous inspections, which can lead to administrative or financial sanctions, including the suspension of licences. The CMB works on the basis of the principles of the International Organisation for Securities Commissions and EC standards.

Chapter 4: Free movement of capital

The Regular Report of 1999 stated that after a long period of gradual opening up of its regime on capital movements, the alignment of the Turkish legislation with the *acquis* is well advanced. However, there has been no major progress since then.

The Directives on **money laundering** have been transposed into the Turkish legal system by Law 4422, in force since August 1999. Turkey needs now to properly implement and enforce this legislation. Serious problems persist.

No other developments can be reported.

Overall assessment

Owing to its obligations under the OECD codes of capital movements, Turkey's regime is substantially liberal in some areas. However, to comply with the *acquis*, liberalisation must be extended to all transactions and authorisation procedures must be abolished.

Restrictions still exist concerning foreign investments in certain sectors such as mining, energy, banking, TV and radio companies and broadcasting. Moreover, restrictions exist on foreign investments in the transport sector (maritime, aviation), and in ports, where foreign participation may not exceed certain ceilings. Certain restrictions also exist concerning foreign investments in real estate.

Certain conditions are requested to foreign companies wishing to be listed on the Turkish stock exchange and for their Initial Public Offering. Reserves of insurance companies may not be invested in foreign assets.

Concerning the payment infrastructure, a real time gross settlement (RTGS) system is already in place in Turkey. However, further efforts are needed to align the legislation with the EC *acquis* in this area. Outward transfers of funds below US\$5 million are free. For higher sums the authorisation of the Undersecretariat of Treasury is required.

The Central Bank is connected to the TARGET system of the ECB for real time transactions in EURO. The administrative capacity should be upgraded to efficiently ensure movement of capital. In this regard, the completion and the implementation of the banking sector reforms are essential.

A major problem for foreign investors is the absence of an independent body to settle disputes with the public administration. The Constitution has been amended to allow for such arbitration, but enforcement has to be improved.

Chapter 5: Company law

No progress can be reported concerning the alignment in the field of **company law**.

Turkey has adopted Customs Law 4458 on the defence of **Intellectual Property rights**, which entered into force in February 2000. This new law aims at fighting against counterfeiting trademarks and pirated copyrights.

The Law of protection of topographies of integrated circuits should enter into force by the end of 2000.

Overall assessment

Since 1995, Turkey has been making substantive efforts to align its legislation with the *acquis* and it has, in principle, already got important parts of the legal framework in

place. There is a need to pursue this process. The completion of the administrative set-up is still necessary. It is crucial to create a coherent IPR enforcement system in Turkey, *inter alia*, to combat piracy. The adoption of border enforcement legislation is urgent. Adequate training should follow for police officials, judges and prosecutors. A special Committee has been established under the auspices of the Ministry of Justice to prepare a new Turkish trade law. All relevant EC Company directives and legislation will be taken into account in this process. The major discrepancies between EC and Turkish legislation concern single member companies, merger provisions, accounting and audit legislation.

As regards **Intellectual Property rights**, a Law, under discussion at the TGNA, aims at bringing Turkish legislation into conformity with the relevant Council directives, as well as with the Bern and Rome conventions and foresees the creation of specialised Courts.

The enforcement of IPRs depends on the Ministry of Culture, which is currently planning to set up a specialised institute with a wide range of powers. However, for the time being the capacity needs to be developed.

Turkey is not member of the WIPO Copyright Treaty and WIPO performance and Phonogram Treaty, but necessary arrangements are foreseen in the above law.

Piracy of audio-visual materials is a serious problem in Turkey. The approval of the relevant legislation and the strengthening of its enforcement are important priorities.

Matters relating to the **Industrial Property rights**, and in particular the implementation of the Hague Agreement of Deposit of Industrial rights, are managed by the Turkish Patent institute, which is not a fully independent body, but is connected to the Ministry of Industry and Trade.

Turkey intends to accede to the European Patent Organisation.

Companies are registered by the Provincial Trade Registries offices (235 throughout the country,) which are located within the Chambers of Commerce. The total numbers of joint stock companies and limited companies registered in 1999 were 79,034 and 389,941 respectively.

Chapter 6: Competition policy

Since the previous Regular Report, Turkey has further aligned its legislative framework in the area of **antitrust policy** in order to conform with the Community *acquis* and the obligations of the Customs Union agreement. Turkey has adopted to a considerable degree secondary legislation, in particular in the area of block exemption regulations. Further alignment however is still necessary in view of the Community's new policies on block exemptions for vertical restraints and on block exemptions for horizontal co-operation agreements.

The Act on the Protection of Competition was passed in 1994. It was modified in 1999 with respect to increases in penalties for offenders. It is largely modelled on the main principles of Community antitrust rules.

Progress in **state aid control** appears to be limited. The precondition for future progress is the establishment of a control authority to ensure an effective application and enforcement of the State aid rules under the Customs Union agreement.

Considerable difficulties have been experienced in relation to monopoly adjustment. In particular, it is regrettable that no progress was made this year with reference to the adjustment of the State monopoly on alcohol and tobacco (TEKEL). The transitional period for adjustment foreseen by the Customs Union agreement expired on 1 January 1998, without any improvement, despite numerous attempts by the Community to resolve this issue. The proposals for adjustments received from the Turkish side fall short of resolving the issue and have not been justified in legitimate terms.

The Turkish Competition Authority started operation in 1997. Since the beginning of its activities, the Turkish Competition Authority has adopted and published a number of legislative acts. These are the most important:

- Communiqué on mergers and acquisitions calling for the authorisation of the Competition Board;
- Communiqué on the procedures and principles for notification of agreements, concerted practices, and decisions of associations and undertakings pursuant to Art. 10 of the Competition Act;
- Communiqué on block exemption of exclusive distribution agreements;
- Communiqué on block exemption of exclusive purchasing agreements;
- Communiqué on block exemption regarding distribution and servicing agreements in relation to motor vehicles;
- Communiqué on block exemption regarding franchising agreements.

Overall assessment

The application of **anti-trust** provisions appears satisfactory, with a considerable number of cases having been dealt with from the start of the operation of the Competition Authority.

Concerning **State aids**, Turkey has communicated to the Commission provisional findings of a study on the definition of a regional aid map of Turkey. Further work is needed to ensure that Community criteria and methodology is followed when finalising the map to enable a differentiation of maximum aid intensities in the country.

Turkey has also provided information on parts of the policies for granting state aid. Together with the Commission, the relevant Turkish Ministries are in the process of establishing a list of the relevant existing laws. On this basis, a substantive review with respect to compatibility with the Community *acquis* can begin.

There is no single authority responsible for carrying out state aid control by systematically assessing the compatibility of aid awards with the Community *acquis*. These controls are under the responsibility of different public bodies, such as the Undersecretariat of Treasury and Undersecretariat of Foreign Trade. Therefore, in the

absence of a body responsible for state aid control, no enforcement record has yet been established in this policy area. Special attention needs to be given to the overall state aid system and the increase of transparency through the establishment of an inventory of existing state aid and regular annual reporting following the methodology and the presentation of the Community's survey on state aid.

In preparation of the analytical examination of the Turkish situation with the Community *acquis*, an inventory of remaining state monopolies of commercial character and companies with exclusive rights will have to be taken.

With the Competition Authority, Turkey has created a functionally independent body with the necessary administrative structures to allow for the effective implementation of rules for undertakings, but it has no competence relating to State aids. The Competition authority has a staff of 309.

It has to be checked whether the Competition Authority is sufficiently involved in this process of monopoly adjustment, and whether it enjoys the appropriate powers with respect to public undertakings, state monopolies and companies having special rights.

Chapter 7: Agriculture

The agricultural sector plays an important role in the Turkish economy (*see for further details Part B.2.2*). The number of people active in agriculture (full time and part time) is about 9.7 million (around 41% of the total labour force). Its share in Turkish GDP is 14.3%.¹⁵ The arable crop sector accounts for more than three-quarters of agricultural production in Turkey. The most important products in Turkey are cereals (mostly wheat with a yield of 21 million tonnes in 1998), followed by various types of fruit and vegetables. In 1999, EC imports from Turkey amounted to € 1,993 million. The EC exported to Turkey for a total value of € 805 million. The trade balance in favour of Turkey amounted to € 1189 million in 1999.¹⁶

GDP per capita in agriculture is relatively low (€3,935 in 1998). Agricultural growth is restrained by high rates of interest and inflation, important structural deficiencies such as fragmented and small holdings, a lack of grassroots farmer's organisations, inadequate marketing facilities and inefficient open-market price formation. As a consequence, Turkish agricultural productivity has been consistently falling over the past 10 years. At present, Turkey is not self sufficient in food production. The average farm size is around 6 ha. Hazelnuts and to a lesser extent grapes, citrus fruits, tobacco and cotton are the largest export products. Cereals (mainly wheat and, to a lesser extent, maize and rice) are the main import products. Foreign nationals are not allowed to buy land but can establish joint ventures.

The Turkish government has played an important role in agricultural development. A large number of state owned and state directed intervention bodies are also involved in

¹⁵ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

¹⁶ source: Uruguay Round Agreement definition of agricultural products, figures taken from EUROSTAT COMEXT (see Agriculture in the European Union – statistical and economic information 1999 p. 36 for definition of the products).

the implementation of agricultural policies, particularly state economic enterprises and agricultural sales co operative unions.

Support policies mainly aim to achieve production increases. Different instruments are applied. These are market price support through intervention purchases (cotton, wheat, sugarbeet, sunflower seeds and tobacco); the subsidisation of farm inputs (artificial fertiliser support; seed support; support for environmentally-friendly agricultural chemicals; irrigation support; electricity power support; and, until March 2000, credit subsidies), quota systems and tariff protection at the border. In the livestock sector, border measures are the main mechanism to support prices (for example 235 % for meat products). Food prices are relatively high due to high import tariffs.

Farm subsidies amount to € 4 billion per year (2.5% of GNP). This significant figure has led the government to develop a reform policy. In the framework of the IMF standby agreement (dis-inflation programme) the Turkish government has committed itself:

- To phasing out existing support policies and replacing them with a direct income support system targeted to poor farmers;
- To granting full autonomy to Agricultural Sales Co-operatives Unions (ASCUs);
- To phasing out input subsidies (gradually phasing out credit subsidies/fertiliser subsidies);
- To privatising some of the State Economic Enterprises in the agri-food sector.

Farmers are encouraged to produce alternative products to hazelnuts, tea, sugar beet and tobacco (crop substitution programme). In this respect, four different pilot projects are under preparation in four different regions to reduce over-production of these commodities. The aim is to reduce the areas for tobacco by 80,000 ha; sugar beet by 100,000 ha and hazelnuts by 100,000 ha. Compensatory payments are given for a reduction in income due to shifting to less profitable crops. Total funds available are approximately € 540 million. After an evaluation of these pilot schemes, it will be decided whether or not a further application of this policy nationwide will be implemented. Support with regard to the upgrading of livestock sector is contemplated in order to improve food security.

The Turkish government has undertaken harmonisation activities of Turkish agricultural policy with the CAP, as the latter stood in 1998. Article 8 of the Association Council Decision 1/95 stipulates the need to remove technical barriers to trade in Turkish legislation within 5 years. An inventory of the state of alignment was made. Technical committees have been set up and have reviewed the different components of the CAP and produced a first table of comparison between EC and Turkish policies specifying the harmonisation needs. This work needs further assessment. In particular, this relates to the documents concerning arable crops and fruits and vegetables, which were transmitted to the European Commission under the implementation of the European strategy for Turkey.

Common Market Organisations

In this respect the adoption in June of the law to liberalise Agricultural Sales Unions and Co-operatives (ASCUs) is important. The law eliminates all preferences and the

governmental role in the operation of ASCUs and establishes a framework for carrying out further restructuring into real private co-operatives.

Rural Development

As regards **rural development** one of the country's most comprehensive regional projects is the GAP/South Eastern Anatolia project in which the improvement of agriculture, mainly through irrigation, plays an important role. The aim of the projects is to increase farmers' income.

Veterinary and Phytosanitary Legislation

In the **veterinary sector** there are in total 26 notifiable animal diseases in Turkey, of which the most important are foot and mouth disease, rinderpest, sheep/goat pox and brucellosis. Vaccinations, quarantine, control of animal movements, surveillance and monitoring are being applied to control the disease, for rinderpest a stamping out policy is applied. Given the seriousness of the situation, the Community provided in September emergency assistance (1.3 million vaccines) to Turkey to combat foot and mouth disease. The Commission also financially assists a national food and mouth disease control and eradication programme.

Turkey's main legal instrument is the law on animal health control (Law 3285 and related guidelines) which prescribes the preparation of programmes and plans to combat animal diseases; it establishes internal and border quarantine of livestock.

There are 8 regional veterinary control and research institutes and 39 provincial control laboratories located all over the country.

Concerning the **phytosanitary sector** Turkey is a member of European and Mediterranean plant protection organisation (EPPO). Turkey's lists of plant quarantine organisms are largely, but not entirely, harmonised with EC lists.

However, Turkey's plant health regime is not compatible with the EC regime. Control of imports is currently governed by an import permit regime and the domestic production is normally not subject to plant health control, other than for the purpose of the certification of seed and propagating material. Producers, other than producers of seed and propagating material, are not subject to compulsory registration.

Ralstonia solanacearum, the agent of the potato brown rot is the most significant harmful organism of concern present in Turkey. Surveys as well as laboratory tests are carried out in accordance with the relevant EC Directive. However, the number of tests per year is limited due to capacity problems by the single Turkish laboratory able to perform the prescribed tests. An increase of laboratory testing capacity is urgently needed.

Overall assessment

Turkey's agricultural policy differs substantially from the Common Agricultural Policy. Turkey needs to undertake major efforts to align with the Community *acquis*. The first priority is to set up basic mechanisms to be able to manage agricultural policies. It is equally important that, as a matter of priority, veterinary and phytosanitary legislation to combat diseases is put in place, including the necessary structures for enforcement and

control. Further administrative reforms are needed, including training and upgrading of equipment.

Currently, the agricultural support systems in Turkey are rather different to those in the EC because they mainly focus on market price support via intervention and farm input subsidies. The main features of the Common Agricultural Policy after the adoption of the Agenda 2000 package is to have a renewed system of direct payments in place in main production areas (cereals, beef and milk from 2005/2006 onwards). This includes the implementation of obligatory supply control mechanisms by farmers (set aside, maximum premium per herd size etc). In the renewed CAP more emphasis is also put on increasing the competitiveness of EC agricultural products on world markets, food quality and safety and the incorporation of environmental considerations in agricultural practice.

In Turkey only a limited amount of funds are allocated to direct farm income support. The reforms envisaged by the Turkish government could however bring Turkish agricultural policies closer to the EC model, in particular through systems compatible in the medium term with the agricultural *acquis*. One of the fundamental objectives of the CAP is to provide direct income support on the basis of historical (reference) yields while at the same time controlling supplies. The overall objective of the Turkish policy in agriculture, however, is to overcome substantial structural deficiencies and, moreover, further substantially increase production in a sustainable way. Direct income payments in Turkey serve to compensate farmers for their shift to other alternative, less profitable crops. Only in limited cases is this related to supply controls (tobacco sector).

The first priority for Turkey should be to have in place the basic management mechanisms and administrative structures of the Common Agricultural Policy. In particular, this should imply that Turkey establishes a land register system, further improves agricultural statistics and further upgrades inspection and control mechanisms, including at external borders (BIPs), and establishes the financial mechanisms including internal and external control of the Common Agricultural Policy (EAGGF). The further development of producers' organisations in conformity with Community legislation is to be encouraged. It is equally important to further improve the overall quality standards and safety of agricultural products in Turkey. This would entail the upgrading of laboratories and other relevant equipment for inspection and sampling in order to exercise sufficient quality control. Quality insurance of the inspection system also needs to be developed. It is therefore recommended that harmonisation activities with the Community *acquis* continue on this basis. An action plan for all this work could be considered.

Turkey should establish a clear strategy for adoption of the *acquis* in the veterinary fields including upgrading of laboratories and other equipment to detect diseases including directly at border posts. Training of staff is further required.

Further progress has to be made on the establishment of a programme of active surveillance and implementation of control measures in Turkey following Decision 98/64/EC. Swift and reliable information with regard to the different disease situations in Turkey is essential.

Turkey should establish a clear strategy for the phytosanitary *acquis*. Turkish plant health authorities should first become acquainted with the Community plant health legislation,

before carrying out a legal gap evaluation between current Turkish legislation and EC *Acquis*.

There is also a need for upgrading implementing capacity, ranging from an increase in laboratory testing capacity, the alignment of border inspection post standards with EC standards, training of staff and increased information to relevant parties.

As regards administrative structures, the Ministry of Agricultural and Rural Development plays a key role in the development of agricultural policies in Turkey. At central level 1723 persons are working at the ministry, while in the provinces 30,263 persons in total are employed. There are 6 state economic enterprises (see also above). The agricultural sales co-operatives and their unions buy products from their members. Agricultural chambers exist which represent farmer's interests.

As regards the administrative capacity relating to veterinary matters, at central level these are dealt with by the General Directorate of Protection and Control of the Ministry of Agriculture and Rural Affairs (MARA) (departments of animal movement and quarantine service, animal health services and public health service). Each province has an animal health section responsible for the daily implementation of the law on animal health control. There are also veterinary officers working at a district level. In total 1579 officials work at central and provincial level while 1322 persons are involved in laboratories, education and training. A customs veterinary service is operational.

As regards administrative structures related to **phytosanitary** matters, these are mainly dealt with by the Directorate of Protection and Control of the Ministry of Agriculture and Rural Affairs. In each province there is a plant protection service (in total 2983 officials in 81 provinces).

All inspections (in total 41) are carried out according to the Plant Quarantine Regulation of 1991. The Plant Protection Research Institutes carry out laboratory diagnosis (one Plant Protection Central Research Institute and 4 Agricultural Research Institutes).

In view of the large number of entities involved in agricultural policies, it would be recommended to regroup different agricultural bodies. There is also a case to improve the co-ordination of different aspects of agricultural policies.

Chapter 8: Fisheries

Compared to the situation in 1999, no progress can be reported in the area of fisheries.

Overall assessment

Much remains to be done in order to comply with the *acquis* in this field.

Turkey has quite substantial fishery resources both due to its long coastline and extensive inland waters and river systems. However, the fisheries sector accounts for only 0.3 % of Turkey's GNP.

The total number of fishing vessels is 17,475. There is no distant water fleet. The total number of licensed fishermen is 55,000 and the total number directly employed 200,000, while 2 million people depend on the fishing industry indirectly.

The overall policy aim of the government is to further develop the fisheries sectors (increase of production) in a sustainable way by eliminating a number of deficiencies in the fisheries structures while preserving natural resources. It also wishes to upgrade quality control systems.

In aligning with the *acquis*, a first priority for Turkey should be the implementation of the fundamental management mechanisms and administrative structures of the Common Fisheries Policy. In particular, this would imply that Turkey further upgrades inspection and control mechanism (logbooks, landing declarations, vessel-monitoring system) and establish a separate fishing fleet register while stimulating the development of producers' organisations in conformity with Community legislation. It is equally necessary to further improve the overall quality standards and safety of fishery products in Turkey. This would entail the upgrading of laboratories and other relevant equipment for inspection and sampling in order to exercise sufficient quality control.

As regards administrative capacity the Ministry of agriculture and rural affairs (MARA) is the main state organisation responsible for fisheries, regulation, protection, promotion and technical assistance through four general directorates. In each of the 81 provinces there is a sub-directorate for fisheries dealing with policy matters; inspection; quality control and optimum use of resources. In 26 provinces are quality control institutions established. There are also other institutions involved in fisheries such as SPO, statistics and foreign trade. In 26 provinces, 128 inspectors work in the field of quality control while at central governmental level, eight experts are employed in this area. A total of approximately 250 persons work on the management of the fisheries policies at the provincial directorates, while five persons oversee the work carried out in the provinces at a central level. The Undersecretariat of Foreign Trade is responsible for the preparation and implementation of regulations with respect to the in- and exports of fishery products. Improvements of the administrative capacity are necessary.

Chapter 9: Transport policy

Since the last regular report no new legislation transposing the Community transport *acquis* has been adopted.

Turkey has participated and contributed actively to the international activities on the relevant Pan-European Transport Corridors and in particular the Black Sea Pan-European Transport Area for which it has acted as Chairman since July 1999. An inventory of ports in the region has been prepared.

On **road transport** no further progress has been achieved yet in legislative terms, although certain practices in the organisation of the market or professional standards appear to be applied similarly to the EC. In July 1999 Turkey became a contracting party to the European Agreement on the Work of Personnel of Vehicles Engaged in International Road Haulage (AETR).

No progress can further be noted in the field of **air transport** and in the **railway sector**.

In the field of **maritime transport**, no specific progress has been achieved as regards the EC *acquis*, although Turkey is a signatory of many related international IMO rules and regulations and has harmonised its legislation accordingly.

Since the last regular report, no progress can further be noted as regards the lifting of restrictions on vessels serving the Cyprus trade and of vessels on the Cyprus register, which Turkey still applies. This remains a matter of major concern. In addition, market access to coastal trade is reserved for Turkish-flagged vessels.

Overall assessment

Turkey needs to step up considerably the legislative work necessary to change its legislation and adopt the Community transport *acquis*. This must be considered a priority at this stage of the accession process in order to prepare the ground for the effective implementation of these laws. Whilst a large number of laws are under consideration and preparation, many of these are framework laws which leave the detail of implementation to secondary legislation.

As regards **road transport**, whilst accession to the European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR) was envisaged already for last year, it has not yet been concluded. Turkey has always been invited to attend the negotiations on the multilateral INTERBUS agreement on occasional bus services, but neither attended the meetings nor the signature earlier this year.

As regards the **railway** sector, it is recommended that Turkey make efforts to achieve compliance with the railway *acquis*.

In the field of **air transport** Turkey is preparing to join the Joint Aviation Regulations (JARs).

The **maritime safety** record of the Turkish fleet compared to that of the EU fleet remains a matter of serious concern. In accordance with 1999 Paris MoU statistics, the detention rate for Turkish-flagged vessels is 24.5%, which is one of the highest amongst the 13 candidate countries. This is to be compared with an average of 3.6% for EU-flagged vessels.

The 1999 Regular report already stressed the importance of improving Turkey's maritime safety record with the objective of ensuring that the gap between the detention rates of Turkish vessels and EU vessels is considerably narrowed. However, Turkish efforts to improve this safety record are neither structural nor comprehensive, and mainly relate to the transport of oil.

A key difficulty will most likely be the adaptation of Turkey's considerable transport fleet to EC standards. This is the case in road transport and in particular maritime transport, for which the level of safety of the Turkish fleet needs to be vigorously addressed.

As regards the **administrative capacity** there is an urgent need to strengthen Turkey's maritime administration in order to improve the safety record of Turkish vessels. Turkey should try to ensure its Flag State implementation obligations as first priority, followed by its Port State obligations. The latter is a problematic issue, since Turkey has an insufficient number of officers. Care should be taken that there is a sufficient number of trained inspectors to apply the *acquis*.

Improvements of Turkey's administrative capacity to implement and apply effectively the legislation are required in all sectors of transport policy. In particular such improvements should be made urgently as far as the maritime administration is concerned.

Chapter 10: Taxation

Very little progress has been reported in the field of taxation since the previous regular Report. As regards VAT an amendment, aiming at bringing the treatment of exempted imports in line with the Community *acquis*, was carried out in January 2000.

Overall assessment

On the basis of available information, Turkey has made very little efforts to harmonise its tax legislation to that of the *acquis* since the previous regular report.

Substantive alignment is still required concerning **VAT**. This is in particular the case as regards the application of VAT rates and the scope of exempt transactions. Substantive alignment is also required in the field of excises both vis-à-vis the tax structure and the level of duty rates.

As far as the principle of equal taxation of **excisable** goods irrespective of their origin is concerned, further clarifications are required.

Turkey should give higher priority to aligning its tax legislation with the *acquis*. A more strategic approach is recommended i.e. a legislation specific transposition programme.

The strengthening of the administrative capacity must remain a priority.

Chapter 11: Economic and monetary union

A detailed assessment of Turkey's economic policy in its various aspects has been given above, in the chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *acquis*-as defined by title VII of the EC treaty and the other relevant texts-which candidate countries should implement by accession at the latest, i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the public sector to financial institutions, and independence of the national Central Bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU *acquis* is conditional, this aspect has been covered above, in the section on Chapter 4 – Free movement of capital.

Since the last Regular Report, Turkey has made no significant progress in the adoption of the EMU *acquis*.

According to present legislation, the government still has access to a limited, short term Central Bank facility in order to finance temporary liquidity constrains. However, in practice, the treasury rarely uses this facility. Although the government does not seem to have direct legal **privileged access to the financial institutions**, the fact that the public banks regularly purchase government paper provides easy access to financing the government. Financial sector legislation, such as investment rules for insurance

companies and pension funds, needs to be further verified for the absence of privileged access.

Overall assessment

Turkey will participate in EMU upon accession with the status of a country with a derogation under article 122 of the EC treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.

Overall, some parts of Turkey's legislation are in line with the EMU *acquis*. Further progress is necessary with respect to all other elements of the EMU *acquis*.

Under the current conditions, the Turkish government does not have access to **direct public sector financing by the central bank**, nor from the state owned banks.

The Law establishing the Central Bank was amended in June 1999. According to the statute, the Turkish Central Bank is not independent, as the personal institutional and financial independence of the Central Bank are not fully guaranteed. In addition, the statute does not guarantee the independent conduct of monetary policy. For example, interest rates on credit and deposit are proposed by the Bank to the Prime Minister. Equally, the Central Bank's credit policy must be in line with the Government development plans, and must be approved by the Prime Minister.

The bodies responsible for implementing the economic policy in Turkey are the Undersecretariat of Treasury, the Minister of Finance, and the Central Bank of the Republic of Turkey.

Chapter 12: Statistics

Compared to the situation in 1999, no concrete progress can be reported in the field of statistics.

Co-operation between Turkey and Eurostat started only recently. Until now, MEDSTAT has been the main framework of statistical co-operation between the EC and Turkey. First discussions between the Turkish State Institute of Statistics (SIS) and Eurostat took place in June 2000. Priority areas were defined to start co-operation with Eurostat in the following fields: Harmonised Consumer Price Index and Purchasing Power Parities, Earnings surveys, agriculture statistics, business statistics and external trade.

Overall assessment

Turkey's statistical system is still very different from that of the EC in most fields, such as **demographic and social statistics, business statistics, external trade and agricultural statistics**. Differences also exist in **macro-economic statistics** although in the past due to the EC-Turkey Customs Union, some alignment has taken place. **Regional statistics** are not available. In all of these areas much more work is needed on methodology, quality and completeness of data to achieve compliance with the *acquis*. Further contacts between Turkey and Eurostat are envisaged before the end of the year with the objective to assess in detail the Turkish statistical system.

As regards **administrative capacity**, the SIS is the central authority of the statistical system, responsible for data collection, production and publication of statistics. The headquarter of the Institute consists of 10 “Principal Service Units” which cover the main statistical areas, complemented by three “Advisory Units” (Legal; Research, Planning and Co-ordination; Statistics) and three “Supporting Units” (Administrative and Financial Affairs, Personnel, Civil Defence Unit). Presently, the SIS comprises 23 regional offices. By Law, the “Supreme Statistical Council” is the advisory body of the Turkish statistical system. The administrative organisation of the statistical system needs to be developed substantially. Particular efforts are needed in areas including setting of priorities, staff training, and ensuring appropriate staffing in departments working on areas relevant for EU integration. Officials at the SIS require training.

Chapter 13: Social policy and employment

Compared to the situation in 1999, no major progress was made in harmonising national legislation with the Community *acquis* in the field of social policy and employment.

As regards **Labour Law** no further alignment has taken place since 1999, even though the Ministry of Labour and Social Security has established a committee to upgrade and harmonise labour legislation with the *acquis*.

Child labour is widespread and remains a matter of major concern.

In the area of **equality of treatment** no further transposition of EC legislation can be reported. No progress has further been made in the area of **health and safety**.

The **public health** care system is confronted with two major problems, the insufficient public expenditure on health services (the share in the budget dropped from 4.7% in 1992 to 2.6% in 1998) and insufficient distribution of the service in general. A reform of the public health care system is urgently needed.

As regards **social dialogue** at all levels no major progress has been made since the last Regular report. This area remains a matter of serious concern (*see also Section B-1.2 – Human rights and the protection of minorities*).

Concerning **social protection**, an unemployment insurance scheme was launched in June 2000. The reform of the Turkish social security system is an on-going process and urgently needed.

Overall assessment

Turkish legislation is still very different from that of the Union in particular in terms of standards, methods and monitoring requirements.

In the field of Labour law much remains to be done in areas such as collective redundancies, the protection of employees with regard to the transfer of undertakings and insolvency, the contract or employment relationship, health and safety of temporary workers, the organisation of working time, part-time work, the protection of young people at work, European Works Councils and posting of workers.

The “National Steering Committee” on child labour was established in 1992 by the parts of the public sector concerned, trade unions and voluntary organisations. However,

progress to tackle child labour has so far been limited. Turkey should address this issue as priority (*see also Section B-1.2 – Human rights and the protection of minorities*).

The Turkish Constitution guarantees gender equality and lays down the principle of non-discrimination. However, efforts are needed to ensure implementation and enforcement of equality of treatment. In particular actions should be envisaged to reduce female illiteracy and promote urban employment for women through education and training.

As regards social dialogue, a law on trade unions in the public sector is under preparation, containing a number of provisions which could entail significant constraints on the right to organise in the public sector. These restrictive provisions notably relate to the exclusion of large categories of workers from the right to join trade unions; the possible 'liquidation' of trade unions by the authorities, which could lead to the banning of trade unions on political grounds; the scope of collective bargaining; and the right of affiliation to international public employees' confederations.

Outside the public sector, difficulties with regard to freedom of association and collective bargaining also persist in law and practice. Thus, the law on collective bargaining, lockout and strikes at present requires unions to represent 10% of workers at the sectoral level in order to gain collective bargaining rights. There continue to be reports of the denial of trade union rights in the Turkish shipbuilding industry.

Moreover, trade union rights are curtailed in export processing zones, where the application of some labour legislation is suspended and restrictions are imposed on the freedom of workers to organise and on the right to collective bargaining. Further progress needs to be made as a priority to create the conditions for a free and genuine social dialogue at all levels.

Unemployment stood at 8.3 % in the first quarter of 2000, compared to 7.6 % in 1999. The main challenges for Turkey are the high level of youth unemployment (15.2 % in 1999) and the structural change associated with a transition from a labour market which is still dominated by the agricultural sector, with around 41.3 % of total employment in agriculture. Moreover, half of all employment is thought to be unregistered. Against this background, there are few signs as yet that Turkey has begun to develop active labour market policies.

The social security system continues to be in serious financial difficulty. The reforms in progress are essential. On major health indicators, such as infant mortality, maternal mortality and life expectancy, Turkey continues to be significantly worse than EU Member states. Decent standards of primary health care must be ensured for the whole of the population. No National Programme for disabled people exists yet in Turkey. Several institutions are in charge of disabled people, among others, the Administration of Social Services and Child Protection, the Ministries of Health, Education, Labour and the Worker Placement Agency. The Turkish Labour Law foresees that private and public institutions employ disabled persons (at least 3% of the total number of staff). However, implementation and enforcement is not ensured.

As regards the **administrative capacity** at central level, the Ministry of Labour and Social Security has the overall competence. In the Ministry the "Social Policy and Employment Harmonisation Committee" is responsible for the harmonisation of Turkish legislation with the *acquis* on employment and social policy issues, whereas the

“Technical Harmonisation Committee” is responsible for the harmonisation of Turkish legislation in the field of health and safety at workplace.

The Turkish Employment Organisation is the sole employment Agency in Turkey dealing with matters related to employment and unemployment issues, job finding, placement of workers into public and private organisations and vocational training activities. It has 12 regional directorates. Being administrative and financially independent, it is operating under the auspices of the Ministry of Labour. However, work of the Employment Organisation is not effective and urgently needs to be improved.

Occupational health and safety is dealt with by various bodies, the Labour Inspection Board and its affiliated groups, the Department of Occupational Health and Safety Centre, the Near and Middle East Labour Training Centre and the Occupational Diseases Hospitals of the Social Insurance Institution. The Labour Courts are responsible for labour and social security cases. Moreover, there are three main social security organisations in Turkey, the Social Security Fund for Civil servants, the Social Insurance Institution and the Social Security Agency for Artisans and the self-employed.

Implementation and enforcement of social policy and employment rules seem not ensured due to the involvement of various bodies and institutions at different levels and thus conflicting interests and responsibilities, lack of trained and specialised staff as well as lack of financial resources.

Legislation transposing the EC Directive based on Article 13 of the Treaty relative to discrimination on the grounds of race or ethnic origin will have to be introduced and implemented.

Chapter 14: Energy

Over the last year the energy sector has been the focus of serious discussions in Turkey. The most important reasons for this debate were the energy shortage that hit Turkey as well as discussions concerning the construction of a nuclear power plant in Mersin-Akkuyu.

Compared to the situation in 1999, progress in transposing the Community *acquis* in the field of energy has been limited. In total only 16 out of 120 EC references on energy are in harmony with the EC. 10 need harmonisation, and 32 references do not have a corresponding Turkish legislation. A positive step was the conclusion of the ratification process of the Energy Charter treaty and related instruments.

As regards **security of supply** no major new developments are to be reported.

With regard to the issues of **competitiveness and the internal energy market**, a first essential step to structural reform of the energy sector, i.e. removing barriers to liberalisation and encourage investment, was the amendment of the Turkish constitution to allow for international arbitration and privatisation. Restructuring of all sectors is underway, but the emphasis is very much placed upon privatisation and attracting investments rather than the need to open up each sector and to encourage competition. As part of conditions for receiving a loan from the IMF, Turkey has pledged to open up and liberalise further its energy sector.

Concerning **energy efficiency** no new developments have taken place.

In the field of **nuclear energy** there are currently no commercial **nuclear power plants** operating in Turkey. The government recently cancelled a call for tender for constructing a first nuclear power plant in Mersin-Akkuyu for safety and budgetary reasons. A Regulation concerning the treatment of nuclear and radioactive waste and coping with possible accidents was published in January 2000.

Overall assessment

There is still much that Turkey needs to do to bring the energy sector's legislative, regulatory and administrative framework in line with the *acquis*. Key laws for the power and gas sectors are still pending. The legislation which is under preparation should provide a good basis for implementing the *acquis*, although it remains to be seen whether further implementing secondary legislation will be required for full conformity.

Since Turkey is a member of the IEA, important steps have been taken for compliance with IEA commitments and the EC emergency preparedness *acquis* as regards oil stocks. Total oil stocks, as regularly notified to the IEA, were equivalent to 87-90 days of consumption in 1998. All emergency preparedness measures are under the control of the Directorate General for Petroleum Affairs, which serves as the agency for monitoring and controlling oil stocks.

Turkish electricity generation and transmission activities have already been separated from distribution activities. The private sector is involved in generation and distribution. Further restructuring has been postponed until after the adoption of the envisaged Electricity Market Law. Third party access to networks has already been part of the Turkish electricity system.

Prices and tariffs are not established by an independent entity: the state-owned utilities still play an important role in this. The power sector also suffers from losses amounting to 20.4% of production. Half of this is a result of technical losses, the other half from non-technical losses, among others theft. The state-owned distribution company's attempts to reduce levels of theft have met with very limited success. Such losses contribute to the financial deterioration of the state generation and transmission company. A financial recovery plan is therefore in place and it is hoped that the privatisation of the distribution sector will assist in improving Turkey's bill recovery record.

The state-owned utility for both oil and gas (BOTAS) still has a legal monopoly, and it is the sole authority in natural gas importation as well as pricing of natural gas. There are, however, no obstacles to foreign or private ownership or distribution, and the monopoly will be fully abolished during the restructuring process. Access to the network is already foreseen in the current legislation. Restructuring of the gas market is being planned.

There is still a state dominance of the oil sector through 4 State-owned enterprises covering upstream, refining, distribution and transportation activities, and pipeline transportation is still the responsibility of BOTAS. The 4 companies are not monopolies but have a dominant market share. It is expected that BOTAS be unbundled soon, and the environment for foreign participation is favourable.

Overall, Turkey's priority in restructuring its energy sector is in privatisation and attracting investments. It is vital that this should also be accompanied by an opening up

of each sector and encouraging competition. In addition, there is a need to improve the financial discipline of utilities, particularly those in the power sector. Establishing independent regulatory authorities will help in this process.

Due attention should be given to preparing the implementation of Euratom safeguards. As regards the **administrative capacity** the continued absence of regulatory authorities for both the electricity and the gas sectors is an obstacle for the sector's restructuring as well as attracting investments. The envisaged new legislation in these areas is to establish the independent regulatory authorities. It is important to ensure that these authorities have the effective capacity and independence to carry out their tasks. In the nuclear energy sector, the Turkish Atomic Energy Authority serves as a licensing authority and also licenses trade in nuclear material. IAEA safeguards apply, including as regards measures to protect workers.

In general the current administrative capacity in these areas requires further modernisation in structural terms as well as staff training.

Chapter 15: Industrial policy¹⁷

Since the last regular report progress has taken place concerning mainly the privatisation of State owned enterprises. The alignment with EC standards has also progressed.

The State is committed to large-scale **privatisation**, which in the past have not progressed as quickly as expected. For the year 2000, Turkey has set itself the target of reaching approximately € 8.5 billion in revenues from privatisation. To reach the year end privatisation target, it will be necessary to make progress on the privatisation of Turk Telecom. In January 2000 the Turkish Parliament adopted legislation on international arbitration in cases of disputes between the State and private companies with reference to disputes concerning concession agreements in the provision of services by private companies. This will make it easier for Turkey to find companies willing to engage in Turkish infrastructure projects on a build to operate basis.

In order to facilitate FDI, the need for authorisation has been replaced by the registration to the General Directorate of Foreign Investment in the Undersecretariat of Treasury.

Overall assessment

Turkish **industrial policy** is based on the 8 th Five Year Development Plan which aims at harmonising Turkish industrial policy with EC industrial policy and which foresees structural reforms to integrate Turkish industry into the EC market. The plan also proposes the harmonisation of Turkish industrial legislation with that of the EC and the development of commercial and technical co-operation between Turkey and the EC. However, Turkey's industrial policy approach needs to be further aligned with that of the EC, and should take advantage of the local potential while refraining from protectionism.

The manufacturing sector accounts for about 27% of GDP (including construction) and 23% of total employment. Turkish industry is characterised by a dual structure, with very

¹⁷ " Developments in Industrial policy should be seen in relation to developments in the context of SME policy (see chapter 16 - Small and medium-sized enterprises)

large companies (conglomerates) whose activities range from manufacturing to financial services.

The grey economy is also very large, but there are no reliable evaluations of its size. This element can limit the effectiveness of traditional industrial policy tools. The manufacturing sector is already largely exposed to international competition and is showing a sufficient competitiveness in a number of sub-sectors.

An important dimension of the industrial policy is the control of state aids (*see also chapter 6 - Competition*).

Privatisation in the telecommunications and energy sectors are expected to improve the business environment for Turkish industry in the future, provided that they are also accompanied by a lifting of monopolies and market liberalisation. However, privatisation of state assets will not be total, since the State intends to maintain a role in certain strategic sectors.

In the steel sector, the government has now decided to transfer Isdemir to Erdemir, a consequence of the failure to privatise Isdemir. The objective of this operation is to have Isdemir produce flat iron and steel products. This operation would result in increasing the production capacity in these products which would add to the excess capacity in the sector in Europe, therefore contradicting EC policy objectives.

One of the weaknesses of the Turkish industrial system is the low level of FDI, around € 1 billion a year, that places Turkey around the 50th place in the world as a destination for FDI. Therefore, any improvement of the macroeconomic and legislative framework is important if it can increase the level of FDI.

Turkish industrial policy is managed by the Ministry of Industry and Trade. The TSE - Turkish Standard Institute - lacks capacity, in particular in the field of testing. The problems it encounters (also reported in the chapter 1 of this section of the Regular Report) may have negative effects on competitiveness of Turkish companies. The adoption of the necessary technical regulation will foster industrial policy as well as free trade of goods.

Chapter 16: Small and medium-sized undertakings¹⁸

SME's with less than 250 employees represent almost 65% of employment in the Turkish manufacturing sector. They are mainly concentrated in the traditional sectors (85% of all SME's are concentrated in the sectors of food and beverages, textiles, wood products, paper, fabricated metal products).

The centre piece of the State aid regime is the Decree for State Aids in Investment for SME's, which the Commission has to assess on its compatibility with the *acquis*.

¹⁸ Developments in SME policy should be seen in relation to developments in the context of Industrial policy (see chapter 15 – Industrial policy).

Overall assessment

The alignment on EC policy has yet to start. In particular, there has been no progress towards the simplification of the regulatory framework defining the **business environment** as such.

There is no distinction between large companies and SME's in Turkish policy. Moreover, there is no universal **definition of SMEs** adopted by the Turkish institutions. None of those currently used is in line with that used by the Commission.

The main specific difficulty faced by Turkish SME's is access to finance, since the financial sector has been reluctant to give long term credits because of high inflation and high returns on state papers. SME's weaknesses reside in the low level of management skills, and access to technology. Other problems are stemming from weaknesses in the areas of research, product quality improvement, marketing, technology development and productivity.

Operation of SMEs will be facilitated by the general stabilisation of the macroeconomic framework, by the fiscal reform, the pursuit of the disinflation objectives and the firm foreign exchange policy. The completion of the fiscal reform and the reduction of the hidden economy would allow for a fair competition among small companies. The reform of the financial sector may facilitate SME's access the financial sector and its instruments. The reduction of the public sector borrowing requirements, and the inflation expectations have already reduced drastically the interest rates, easing the possibility of accessing financial markets. However the reforms do not seem to aim sufficiently at reducing the grey economy.

As far as **administrative capacity** is concerned, Turkey has the necessary institutions. The Ministry of Industry and Trade is responsible for the conception and implementation of Industrial policy. It is assisted by other Ministries and, since 1990 it has had the Small and Medium Industry Development Organisation (KOSGEB). This is a non-profit, semi-autonomous organisation with the aim of improving the efficiency and competitiveness of SMEs through technical assistance and training. Its business information network, created by KOSGEB, appears to be able to provide useful information and assistance to Turkish entrepreneurs.

Chapter 17: Science and research

Since the last Regular report some progress has been made by Turkey in this field.

During the past years Turkey has increasingly participated in European research activities. It recently became a member of the European co-operation in the field of scientific and technological research (COST), and has been taking part in Community Framework Programmes since 1995, and in Eureka from the start.

New legislation on the establishment of the National Accreditation Council has been adopted. A National Council of information technologies to co-ordinate the implementation of a master plan for the national information infrastructure has been established.

The Scientific and Technical Research Council of Turkey (TÜBİTAK) is the leading organisation in implementing and co-ordinating research policies in Turkey.

Overall assessment

Currently Turkey has not asked for full association with the **5th RTD Framework Programme**, and continues to participate on a project-by-project basis.

Scientific and research activities are predominantly conducted by universities (there are 74 of these) and public research institutes, and the research structure is spread rather thinly over the country. The level of investment in the RTD by the private sector is limited.

For the further development of the sector it is essential to have an increase in the gross domestic expenditure in research and development as percentage of GDP which is relatively low (0,49% in 1997). The 8th Five-year Development Plan (2001-2005) envisages the further development of scientific and technological research. The aim is to increase expenditure on RTD to 1.5% of GDP by the end of 2005, while increasing the number of researchers to 20 per 10,000 of labour force. However, it is not clear in which R and D sectors more efforts are foreseen. Turkey also envisages to increase financial assistance to enterprises in the private sector and to encourage joint projects in the framework of public-private partnerships. The transfer and dissemination of technology to the private sector, in particular SMEs, has to be strengthened.

Chapter 18: Education and training

In the past year, further preparations took place for the participation of Turkey in the **Community programmes** in the fields of education, training and youth.

The exact state of transposition of the **EC Directive concerning children of migrant workers** needs to be further clarified.

The improvement of education remains a high priority in Turkey. The Commission supports training and education programmes in Turkey (€ 175 m grants in total). Turkey took an important step by increasing the duration of compulsory education from 5-years to 8-years in 1997. This will raise the number of students in secondary education after three years, and in higher education after six years. Beyond this, the 8th Five-year Development Plan foresees an increase in secondary level enrolment rate to 75% in 2005. Additionally, the proportion of vocational and technical education within the secondary education is to be increased to 35% in 2005.

The application of the apprenticeship system and the Revolving Fund Scheme in schools would contribute to reduce child labour.

As regards administrative capacity education policy is made at a central level while each province has educational departments.

At central level, the Ministry of Education dedicates most of its time to managing and administering the schooling system. The Council for Higher Education is responsible for overseeing higher education and managing universities.

A higher decentralisation of these functions is recommended (by transferring these responsibility to the regions, provinces or districts) and the staff of central departments and resources should be allowed to concentrate to a higher extent on strategy and policy level, and in promoting innovation and quality in the training provision. However, this switch in the attribution of responsibilities would necessarily require strengthening the capability to undertake and sustain these new tasks, both at central and at local levels.

At present, there are 87,280 people working in the management of education of whom 5335 are at Central level and 81,945 at provincial level.

Overall assessment

A tentative assessment indicates that at legal and regulatory level most principles underpinning the educational system in Turkey are consistent and coherent with Member States. This relates to equality of access, right to education, equal opportunities and means, scientific and planning basis, co-education and universal education. Effective school enrolment remains an important issue of concern. Moreover, teaching methods need to be reviewed and unfulfilled vacancies for teaching staff in some areas are to be addressed.

In the area of vocational training further reform measures are needed to increase the efficiency of the training system (integrated system of occupational standards and curricula; permanent assessment of the quality of the system); strengthening the institutional capacity (decentralisation upgrading of skills) while a system of continuing training needs to be established particularly with regard to the training of SME staff. A clear link between the requirements of the labour market and the skills acquired by the graduates of the vocational schools is needed. Investment in human resources needs to be addressed as a priority not only by the public authorities but also by the private sector.

Chapter 19: Telecommunications and information technologies

In the area of **telecommunication markets** the government has decided in 1999 to issue three additional licences for mobile telephony, one of them by direct award to the Türk Telekom and the remaining two after a call for tenders. In April 2000 one tender was awarded while the second was cancelled.

An important development in the transition process of Turkey's telecommunications was the adoption of a new Telecom Law in January 2000. It provides a legal framework for further liberalisation, but maintains a monopoly of Türk Telekom on voice telephony until the end of 2003. A new Telecommunication Authority has been established under the new Telecom Law and its five members were appointed. The authority is responsible for drafting regulatory instruments including licences and for the purpose of monitoring competition in the telecommunication markets. The expansion and modernisation of services and infrastructure has developed well in 1999 in particular in mobile telephony where the penetration rate reached 14 lines per 100 inhabitants (8 million subscribers) at the end of 1999; the penetration rate in the fixed network has increased to 32 lines per 100 inhabitants (about 20 million subscribers). The GSM subscribers continued to increase after a third GSM licence was allocated to a private consortium including one EU Company. The digitalisation of the backbone network went up to 84.02 % in 1999 (82.9 in 1998). Use of the Internet has rapidly developed (1.1 million subscriptions: there

are 6,5 PCs per 100 inhabitants, however only around 1% is connected to Internet) particularly at universities and for e-commerce.

As regards the administrative capacity the Ministry of Transport has general policy making responsibilities in the telecom sector i.e. monitoring and supervising the proper functioning of the telecom sector in Turkey. Approximately 75 persons are working in the Ministry. The Communications High Board takes care of security aspects. The Competition Board is responsible for overseeing competition issues in the field.

Overall assessment

Turkey has made progress in introducing further competition in telecommunications networks and services. However, the new law on telecommunications does not provide independence of the regulatory authority from the fixed network operator's influence and from the ownership function of the state in relation to Türk Telekom. In addition, there is a need for a tariff regime to allow Turkish Telecom to rebalance its tariffs and a mechanism to regulate leased lines in such a way that it will permit the achievement of the criteria of cost orientation as required by the *acquis* for voice telephony, leased lines and other services. This will allow the Internet and other liberalised services to further develop. It is therefore necessary that in the short term, Turkey adopts application decrees to the existing law in order to implement essential parts of the *acquis* e.g. in licensing and interconnection. It should ensure fair competition in mobile telephony by providing comparable licence conditions to all operators. In the medium term, Turkey should adopt a law to bring the new telecoms law fully in line with the *acquis* for example with respect to the National Regulatory Authority including further administrative capacity building.

Chapter 20: Culture and audio-visual policy

In recent years the **audio-visual** sector has undergone important changes. A competitive environment has been created for example due to the legalisation of private broadcasting. There is a proliferation of private radio and TV channels. There are about 16 national, 15 regional and 231 local TV channels and 36 national, 108 regional and 1056 local radio channels. Cable Broadcasting Services are under development particularly in big cities.

Loopholes in the legislation allows the Radio-Television Board to oppose licences to digital broadcasting transmission.

Turkey's relevant legal framework in the audio-visual sector is determined by the law on the Establishment of radio and television enterprises and their broadcasts from 1994.

In October 2000, Turkey ratified the Protocol to the Council of Europe Convention on Transfrontier Television to which it is already a party.

As regards the administrative capacity, licensing of TV and enforcement of the broadcasting legislation are the tasks of the Radio and Television Supreme Council. This authority can suspend the authorisations of broadcasting as a retaliation against alleged breaches of laws on security. A reform of the law creating this Council has been agreed among the coalition partners, which would allow foreign investors to acquire up to 25% shares in radio and TV stations; 5 members of the Board will be elected by the Parliament and 4 by the High Education Council, the National Security Council, and the Employers'

and Employees' Unions. The management of broadcasting frequencies will be given to this Council. The Ministry of culture is the main body responsible for cultural policy in Turkey. Each province has a directorate of culture.

Overall assessment

A preliminary analysis of the Law on the Establishment of Radio and Television Enterprises and their Broadcasts suggests that the legislation is not aligned with the *acquis*. Major discrepancies have been identified, in particular, concerning definitions, jurisdiction, freedom of reception, discrimination on the grounds of nationality, promotion of European and independent works, advertising and teleshopping, and protection of minors.

Furthermore, the law sets limits to the share of foreign capital in radio and television enterprise (20%).

Turkish's commitments under the WTO/GATS may also prove a major difficulty in fully taking on and implementing the *acquis* in the area of cultural and audio-visual policy in the course of the Accession process.

On the whole, substantial progress will be needed in order to achieve alignment with the Community *acquis* in the area of cultural and audio-visual policy.

Chapter 21: Regional policy and co-ordination of structural instruments

Since the last Regular report no particular developments can be reported in this area.

Overall assessment

While a regional policy exists in Turkey, preparations for implementing structural policies have not yet really started.

Concerning **territorial organisation** Turkey needs to propose to the Commission a NUTS classification in accordance with Community rules, in particular for the NUTS 2 level, which plays an important role in the implementation of structural policies.

As regards the **legislative framework** Turkey's regional policy defines a list of provinces to be assisted and allocates subsidies to companies settling in this part of the country. The so-called priority provinces represent more than half of the area of the country and more than a third of its population. Their GDP per capita is 56% of the national average (19% of the Community average). This policy has, however, not achieved significant results so far.

Concerning **preparation for programming**, the analysis of public investment does not indicate a very significant effort in favour of less-favoured regions. In 1997, per capita spending was £T 33.4 million, out of which 12.7 million was dedicated to a specific province. Globally, the less-favoured regions received the same amount as the other regions.

The State Planning Organisation (SPO) has started the preparation of a number of regional development programmes:

- Eastern Black Sea region (8 provinces)
- Eastern Anatolia (16 provinces)
- Yesil Irmak development basin (5 provinces)
- Marmara region (5 provinces).

Up to now, none of these programmes have reached an operational phase.

As regards **administrative co-ordination**, Turkish regional policy is carried out in the framework of a centralised planning system. SPO is responsible for regional policy in Turkey. Although responsible for co-ordination of public investments, SPO does not seem to use this competence for regional policy purposes. With the exception of the Authority for the development of the South Eastern Anatolia region (GAP), whose regional policy role needs to be clarified, there are no implementing structures outside Ankara. As foreseen in the 8th Five-Year Development Plan there are not yet SPO regional offices and no local or regional development authorities.

In that respect, Turkey should achieve a reinforcement of its administrative structures dealing with regional development, both at central level (SPO or a specific department responsible for regional policy) and regional level (regional SPO offices).

As to regional **statistics**, data for the determination of eligibility are only available for INTERREG criteria. Following the definition of a NUTS 2 classification, regional GDP per capita in Purchasing Power Standards should be calculated. Based on data collected by SPO and available at NUTS 3 level, regional statistics (at NUTS 2 level) should be elaborated according to EUROSTAT standards.

Although regional problems in Turkey are serious and of considerable dimensions, there is no efficient policy addressing them. There are no regional development authorities. High priority needs to be given to reinforcement and modernisation of a regional policy which is in compliance with Community standards, addressing the major gaps of the regions lagging behind. This implies that a significant level of public investment has to be allocated explicitly to regions which are lagging behind, thus contributing to stepping up investments in human resources, reducing infrastructural disparities, creating a favourable environment for private investment and ensuring a significant improvement of living conditions.

Chapter 22: Environment

Since the last Regular report no evidence of progress in adopting the *acquis* is apparent in areas such as air quality, waste management, water quality, nature protection, industrial pollution control and risk management, chemicals, GMO's, ozone depleting substances, nuclear safety and radiation protection.

Overall assessment

Turkish legislation is still very different from that of the Community in particular in terms of standards, monitoring requirements and methods of measurement. Complete adoption of the environmental *acquis* remains a long-term prospect. The implementation of the laws leaves much to be desired. It is also important to carry out detailed

compliance checks of these laws in order to ensure full transposition of EC environmental directives.

The 1983 Environment Law defines the framework for environmental management and environmental legislation. The last legislative activities based on the Environment Law date back to 1997 (amendment of the Environment Impact Assessment Regulation, which needs, however, to be revised to bring it in line with the *acquis*).

In the field of **air quality** legislation still needs to be harmonised with the *acquis*. Moreover, the Turkish air quality monitoring system needs further improvement to make it compatible with the EC *acquis*.

Waste management is one of the most problematic areas in particular as regards implementation of related legislation. A large percentage of household waste (93%) is uncontrolled waste, being illegally dumped. Substantial efforts need to be undertaken to comply with Community standards.

As regards **water quality** the 7th and 8th Five Years Development Plan underlines the need for a new legal framework law on Water Resources and for bringing drink water standards and wastewater discharging in line with the *acquis*. Turkey's water legislation does not seem to be compatible with the Community *acquis*.

In order to preserve Turkey's rich assets in biodiversity, **nature protection** needs to be paid particular attention in the pre-accession process. Turkey will need to make significant efforts to align its legislation with the Community nature protection legislation.

In the area of **industrial pollution control and risk management** legislation in line with the *acquis* still needs to be introduced.

EC directives in the field of **chemicals** are not fully transposed. The Regulation on the Control of Dangerous Chemical Substances and Preparations of 1993 is not compatible with Community legislation (e.g. lack of provisions on risk assessment and classification system). Turkey still lacks a general inventory of chemical substances. Turkish legislation as regards **genetically modified organisms** is not aligned with the *acquis*.

Concerning **nuclear safety** (*see Chapter 14 - Energy*) Turkish legislation is not fully in line with the *acquis*, this in particular as regards reporting and monitoring requirements. Concerning radiation protection the Turkish Atomic Energy Authority has defined a strategy of licensing, radiation shielding of all equipment and development of local safety procedures in all establishments using these sources.

As regards administrative capacity at central level, the Ministry of Environment, established in 1991, has the overall responsibility for environmental activities. They are carried out in close co-operation links and active partnerships with other ministries, government agencies, local authorities and NGOs. The Ministry of Environment employs around 800 staff, further 500 are working in over 30 provincial offices. The State Planning Organisation (SPO) develops Five-Year Development Plans, the main instruments for co-ordinating government policies. Since 1973 environmental issues are addressed. Implementation of environmental policy is also entrusted to the municipalities, which play an important role in implementing environmental protection

measures, building environmental infrastructure, collecting and disposing municipal waste as well as land use planning.

Overall, the administrative capacity at national and regional level is a matter of concern. Enforcement of environmental rules seems not ensured due to the involvement of various bodies and institutions at different levels and thus conflicting interests and responsibilities, lack of trained and specialised staff, lack of financial resources and lack of equipment. There is a necessity of establishing monitoring networks and permitting procedures as well as environmental inspectorates with strong and well-determined powers. Penalties should apply in case of non-compliance. Awareness about environmental issues and knowledge about EC requirements is generally lacking. The municipalities also need to speed up their preparations for EC environmental policy, in particular as regards training.

Turkey's environmental investments amounted in 1997 to around USD 1 billion corresponding to 0.5% of national GDP¹⁹. The Environmental Pollution Prevention Fund is the only national fund to finance environmental activities and investments in Turkey, but the Ministry of Environment has authority to approve only 10% disbursements from this fund. For the time being, the fund provides the Ministry with an annual amount of 125 million Euro to finance research, clean-up operations, education and training, projects aimed at preventing environmental pollution and credit for the construction of treatment plants.

Turkey's environmental investments should to a larger extent focus on the concrete implementation of EC environmental directives, based on a comprehensive investment strategy. The existence of a national fund to promote environmental investments is important in this regard.

Chapter 23: Consumers and health protection

No progress has taken place since the last regular report. The main piece of legislation remains the Act on the Protection of Consumers dating of 1995.

The exact legal status of implementing rules, so-called "communiqués", has to be further clarified.

Overall assessment

Alignment with the Community *acquis* is very limited. The existing consumers associations need to be reinforced and there is a need to establish independent market surveillance and enforcement authorities.

¹⁹ Source: OECD environmental performance review, 1999. This figure includes expenditure on pollution abatement and control, including of state owned industries, expenditure on energy saving, renewable energy sources, public health, conservation of bio-diversity and landscape. Expenditure on water supply is not included.

Chapter 24: Co-operation in the field of justice and home affairs

Compared to the situation in 1999 no major progress has been made in the field of justice and home affairs.

On **data protection** and **visa policy** no further alignment has taken place since last year.

In the area of **migration** and **border control**, efforts started to train staff and to stimulate dialogue on migration issues. A meeting in the framework of the Centre for Information, Discussion and Exchange on the Crossing of Frontiers and Immigration took place.

Turkey needs to conclude re-admission agreements.

In the field of **asylum**, efforts have also started as regards capacity building, in particular training of staff, in close co-operation with UNHCR.

Equipment in the asylum area (headquarters; provinces) has been upgraded in order to improve and accelerate the asylum status determination procedure.

As regards **police co-operation** no new developments are to be reported since last year.

In the field of **fight against fraud and corruption**, Turkey has ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. However, Turkey has not yet signed any of the Council of Europe Conventions in this domain.

On the fight against **drugs**, no major development can be reported.”

As regards **customs co-operation** no major new developments have taken place. The same applies to **judicial co-operation in criminal and civil matters**.

Overall assessment

In the field of data protection, new legislation is under preparation. Turkey has not yet ratified the 1981 Council of Europe Convention on the Protection of Individuals with regard to the automatic processing of personal data.

As far as visas are concerned, the Turkish visa list is not in line with the EU list. For instance, Iranian citizens may enter Turkey for a period of three months without a visa. However, for other countries of origin such as Afghanistan, Pakistan and Sri Lanka, visas can be granted in the country of origin but not at the border.

As far as border control is concerned, it is currently managed by five different forces: the Navy and the Coast Guard at the maritime borders, the police at crossing points and airports and the Army (land forces) at the “green border” (the gendarmerie is still in charge in some areas, as is the case in the Van province, but it is to be replaced everywhere by the land forces). There is no single command over border control nor civilian command. The Gürbulak land border crossing with Iran in the province of Agri is in the process of being modernised. Observation towers are to be built along the 350 kms of mountains separating Turkey from Iran in the province of Van (there are currently “barracks” along this border line). A precise assessment of the protection of the “green border” in terms of staff and equipment still has to be conducted. It is recommended that

the different services are better co-ordinated in order to increase the efficiency of controls, in particular exit controls.

As regards migration, efforts need to be seriously stepped up to decrease the number of illegal persons who try to reach Western European countries.

In the field of asylum, Turkey should lift its geographical reservation to the Geneva Convention, although it takes into consideration all asylum requests and proceeds together with UNHCR (parallel procedures) in order to examine these cases. In a great majority of cases, the conclusions of the Turkish Ministry of the Interior and of UNHCR as to granting the status of refugee are identical. In co-operation with UNHCR, the Ministry of the Interior has drafted a 3-year project covering the period October 2000 – October 2003 aiming at carrying out the training of the personnel dealing with asylum and refugee issues, technical assistance and the changes which occurred in the national and international field of asylum and refugee issues. Given the fact that the Land Forces (Army) are in charge of the surveillance of the green borders and that many asylum seekers enter the country by the green borders, outside the official border crossings, a programme should be developed to enhance the awareness of the land forces on the issue of refugees and asylum seekers. This should be done especially in the East-South East areas of Hakkari, Agri and Van (the green border in the Van region), which consists of a 350 km mountainous border with Iran. This area is still under the control of the gendarmerie but this control is to be handed over soon to the land forces.

As regards accommodation facilities for refugees, a big effort needs to be undertaken to set up proper reception centres in Turkey. For the time being, refugees and asylum seekers are in many cases accommodated by the local population thanks to the local tradition of hospitality and solidarity. They benefit some support from the Governors' offices and the municipalities but these efforts are not comparable to the challenges to be faced due to the substantial regular influx of refugees and asylum seekers.

As regards police co-operation, fight against fraud and corruption, the fight against drugs, customs co-operation and judicial co-operation in criminal and civil matters, serious efforts are required to comply with the *acquis*. This also implies the ratification of the respective international Conventions by Turkey. Moreover, serious efforts are needed to increase the capacities to effectively implement and enforce legislation in these areas.

Chapter 25: Customs union

The new **Turkish Customs Code** entered into force on 5 February 2000. The provisions were almost fully aligned but the application of the provisions in practical terms is still slightly different in respect of free zones and customs procedures with economic impact.

In January 2000, Turkey concluded a new agreement that ensures continuation of technical assistance in respect of the use of the transit procedure and the Single Administrative Document (SAD).

Overall assessment

The Customs Union between the EC and Turkey entered into its final phase on 31 December 1995. The Decision establishing the Customs Union (Decision 1/95 of the Association Council) requires that Turkey align its commercial policy and customs policy

with those of the Community. At present, Turkey has almost fully aligned its Customs legislation with the Community Customs legislation.

Article 15 of the Decision 1/95 of the EC-Turkey Association Council provides the right for Turkey to retain customs duties higher than the Common Customs Tariff in respect of some goods, until 1 January 2001. As from 1 January 2001, Turkey will apply the same customs duties as the Community for all products covered by Decision 1/95.

As for customs, the last Regular Report highlighted the fact that the Turkish customs system basically complies with the Community Customs Code. Differences remain in regard to free zones, on which information exchanges have taken place between the Commission, Turkey and the other candidate countries.

The Customs Undersecretariat which consists of almost 8000 people reports to the Prime Minister. There are 250 customs offices. The reorganisation of customs administration was launched in 1993 and is taking place through the “Modernisation and Automatisation Project”, which foresees in particular the full computerisation of the administration. In some sectors, there is a lack of co-operation with Member States’ customs administrations, for example in respect to the verification of proofs of origin. Moreover, there is a need for thorough training of officials in respect of customs legislation.

Chapter 26: External relations

As Turkey is already in a Customs Union with the EC, and Turkish Commercial policy is largely aligned with the EC policy in areas covered by the Customs Union. Negotiations are underway for the extension of the Customs Union to services and public procurement. In the WTO framework, Turkey is a signatory to the ITA and has observer status in the Government Procurement Agreement. As regards a new comprehensive trade round, Turkey’s position in general concurs with that of the EU.

As far as **bilateral agreements** with third countries are concerned, the free trade agreement with Bulgaria came into effect on 1st November 1999, with Latvia on 1st July 2000, with Slovenia on 1st June 2000 and Poland on 1st May 2000. The agreement with FYROM was ratified 25th July. No negotiations with Cyprus have started. Agreements with some Mediterranean countries have also been signed. The agreement with Poland foresees a transition period until 1 January 2002 when the duties and tariffs will be removed in the trade in industrial good between the two parties. Turkey is applying the Community’s unilateral trade concessions to Bosnia as of July 1999.

Turkey has concluded Mutual Investment Protection Agreements with Cuba, Malaysia, Mongolia and Russia and a Bilateral Investment Treaty with the US.

A WTO dispute settlement panel found the restrictions imposed on India for the importation of textiles to be inconsistent with Turkey's WTO obligations. This ruling was confirmed by the Appellate Body. Bilateral contacts are taking place (between the EC and Turkey) to ensure that Turkey's actions to implement the panel and Appellate Body findings do not undermine the operation of the customs union in this sector.

In the field of **development aid and humanitarian aid**, Turkey has contributed to international stability through the province of humanitarian assistance. Since 1999,

according to Turkish estimates, it has provided aid to 69 countries for a total value of Euro 300 million.

Overall assessment

Overall, there is wide convergence between the EU and Turkey in the area of external commercial relations. The compatibility of the Turkish legislation with EU policies in the fields of dual-use, textiles and alignment to the export credits *acquis* needs to be further assessed. There has been also good co-ordination between Turkey and the EU within the framework of the WTO.

According to the timetable specified in the Customs Union Decision of 1 January 1996, Turkey needs to have aligned itself with all the preferential agreements concluded between the EC and third countries and EC autonomous preferential regimes by 2001. Turkey has so far concluded FTAs with Bulgaria, Hungary, Romania, Lithuania, Estonia, the Czech Republic, the Slovak Republic, Latvia, Slovenia, as well as with the EFTA countries, Israel, and FYROM. Further progress is however necessary in meeting all the EC commitments under preferential regimes.

The EU and Turkey should continue to keep each other informed about negotiations aimed at the conclusion of any new trade agreement with a third country. Moreover, in line with Turkey's candidate status, it should contribute to the smooth functioning of International Organisations, such as the OECD.

As regards **administrative capacity**, Turkish commercial policy is implemented mainly by the Undersecretariat of Foreign Trade, which consists of 1494 persons in total (993 are working in Ankara, 417 in other parts of Turkey and 84 abroad). The administrative infrastructure, which relates to customs services, is addressed under the chapter relating to the Customs Union (*Chapter 25 – Customs Union*).

Physical checks are carried out by the Regional Directorates of Foreign Trade Inspectors. With respect to agricultural products, the Ministry of Agriculture and the relevant provincial Directorates play an important role in the issuing of the relevant control certificates.

Chapter 27: Common foreign and security policy

The **political dialogue** established under the Association Agreement and the relevant Association Council Resolutions has enhanced following the conclusions of the December 1999 Helsinki European Council. Political dialogue was held at both bilateral and multilateral levels. According to the Helsinki conclusions, the bilateral dialogue (Ministerial and Political Directors' levels) now puts "emphasis on progressing towards fulfilling the political criteria for accession with particular reference to the issue of human rights, as well as the issues referred to in paragraphs 4 and 9(a)" (peaceful settlement of disputes and Cyprus issue). A meeting of Political Directors from the EU and Turkey took place in March 2000. The April 2000 Association Council meeting also discussed these political issues. Since the Helsinki Council, and in particular since January 2000, Turkey has participated in all political dialogue meetings involving the EU and the candidate countries at Ministerial level, at Political Directors level and at European Correspondents level and expert group level.

As regards **alignment with EU statements and declarations**, Turkey, since the Helsinki summit, has regularly aligned its positions with those of the Union and when invited to do so has associated itself with the Union's joint actions and common positions. It should be mentioned that Turkey will soon be connected to the Associated Correspondents' Network system which will greatly facilitate rapid and secure exchange of messages in the CSFP area.

Concerning the development of ESDP as part of CFSP, Turkey has actively participated in exchanges in this context with the EU, in EU+15 format (i.e. non-EU European NATO members and candidates for accession to the EU) and in EU+6 format (i.e. non-EU European NATO members). However, Turkey is not satisfied with arrangements set out at the Feira European Council (June 2000) for dialogue, consultation and co-operation with the 6 non-EU European NATO members on military crisis management. The matter is subject to further mutual consultations.

Turkey's official stance on the Cyprus question remains at odds both with UN resolutions and with the EU position. However, the designation of candidate status to Turkey has provided new impetus to the political process for the settlement of the Cyprus issue (see above section on The Cyprus issue in Part B.1.2).

The rapprochement between Greece and Turkey, launched in July 1999, is continuing. Turkey participated in NATO's Dynamic Mix 2000 exercise which took place in Greece in May-June this year. For the first time after the Cyprus crisis, Turkish troops and military aircraft were in Greece. Diplomatic contacts are still taking place on possible confidence building measures in the Aegean without yielding concrete results, so far. In fact, little progress could be noted with regard to peaceful settlement of the disputes in the Aegean.

As far as relations with other neighbouring countries are concerned, Turkey continues to further develop mutual relations with the Middle East, the Caucasus and Central Asia. The Caucasus Stability Pact proposed by former President Suleyman Demirel has however not yet materialised, due notably to the Nagorno-Karabakh issue. Turkey still maintains its border with Armenia closed. In the margins of the November 1999 OSCE summit in Istanbul, an agreement was signed between the contracting parties on the construction of an oil pipeline between Baku (Azerbaijan) and Ceyhan (Turkey). Turkey also became party to the Umbrella Agreement concluded in the framework of the EC INOGATE programme (Interstate Oil and Gas Transport to Europe). Relations with Iran are still marked by security concerns from Turkey and co-operation with Syria on security matters has apparently been relatively successful. Several military operations in Northern Iraq by the Turkish Army have led to serious concern in European public opinion. Turkey is an active participant in the Barcelona Process.

Overall assessment

Political dialogue between the Union and Turkey advanced well since the last Regular Report. As the *acquis* in the field of foreign policy and security develops further Turkey should maintain the orientation of its foreign policy in line with that of the Union.

Turkey took a number of initiatives promoting stability and prosperity in the region. An important element of this is the proposed Stability Pact for the Caucasus, which due to the current unstable situation in the Caucasus could not bear fruit.

Turkey furthermore continues to play an active role in the crisis management operations in the Western Balkans through the deployment of troops in particular in SFOR/KFOR.

Further efforts regarding the developments in Turkish-Greek relations should aim at bringing gains to both countries as well as stability to the region.

Concerning the administrative capacity to implement the provisions relating to CFSP, Turkey has a well-staffed and functioning Ministry of Foreign Affairs.

Chapter 28: Financial control

In the area of financial control, no fundamental progress can be reported. Yet, it is to be noted that the Turkish government has undertaken specific actions designed to improve **public internal and external financial control** and transparency such as its request to the IMF for a formal fiscal transparency review. The Turkish Government itself identified inadequate clarity of roles and responsibilities with respect to both the relationship between Government and the rest of the economy and the roles of Government agencies.

Overall assessment

Given the fragmented state of financial control, it is urgent to ensure that all the “ex-post” internal and external controls assess the soundness and reliability of accounting and financial procedures applied, the legal conformity and regularity and the efficiency of the actual budgetary execution of public expenditures and revenues.

Regarding the **internal financial control system** the total number of auditing units established by various public agencies and organisations has reached 129 and more than thirteen thousand positions have been allocated to auditors. This situation leads to repetitions in auditing and sometimes to exclusion of some areas from the scope of auditing and thus weakens its efficiency. And, at the same time, auditing units and institutions reports rarely find their way out of the excessively bureaucratic system.

The controls performed by the Ministry of Finance are of a “conformity” type and are organised according to lengthy procedures, creating substantial inefficiencies in the provision of goods and services and putting at risk the whole management of public funds. Audits performed by the Ministry of Finance focus on simple regularity and legality of spending transactions but most of the time do not audit the spending systems themselves.

The Turkish Court of Auditors (TCA) is prevented from properly exercising its **external financial control** duties on Budget expenditure as a result of its ex ante controls of all Budget payment orders: these ex ante controls are of an internal nature and conflict with its main ex post external control functions and obligations.

External control should be exercised by a body acting independently of the Government. If that body is involved in the approval of actions under the responsibility of the executive branch, this automatically undermines its external auditing capacity and authority, insofar as these very actions in which it has been involved would be found inappropriate, illegitimate or irregular.

Some legal duties of the TCA cannot be fulfilled because of a lack of adequate co-operation from the Ministries. Also, since the scope of the Budget is very narrow in the

overall public spending, the TCA auditing capacity is greatly limited: in 1999, it has audited only one sixth of all public accounts. Turkey is still lacking a Plan-Program-Budget System as well as a computerised Fiscal Management Information System.

Regarding the capacity to apply **control measures relating to Own Resources and structural action expenditure**, efforts will be required. At the national level, the government will need to take appropriate public internal control measures, so as to ensure that the auditing responsibility is exercised in such a way that it can effectively prevent and deter corruption. It will be necessary also to empower the TCA with the right to put any such risk areas of the public sector in the scope of audit programmes. This would put an end to the widespread phenomenon of “circumvention of auditing” which is one of the most important problems of the Turkish auditing system.

Another serious shortcoming of the Turkish Auditing System is its failure to act according to a continuous and systematic process targeting priority and risks areas, instead of mere *ad hoc* reactions to administrative requests. Legislation should be passed in order to endow the Turkish auditing and internal control profession with a consistent and comprehensive set of standards and principles applied in the EC. It includes the use of information technologies to control public finances. These reforms are certainly needed in order to assure **protection of EC financial interests**.

All together there are around 5100 Auditors/Controllers performing audit tasks in Turkey. Though there is a great deal of overlapping among the various layers of auditing authority, there are also numerous loopholes in the effective coverage of financial control and auditing, especially with respect to effective follow-up of control/audit findings and there is no actual plans to make ex-ante controls and internal audit complementary to each other. Moreover, many areas remain, or are made, exempt from any auditing, through “ad hoc” legal arrangements, or merely “de facto”. Such “ad hoc” provisions also regularly allow for non-disclosure of some audits to the TGNA.

Also, the overall concept of the Turkish fiscal management system is not based on the modern principles of fiscal transparency, public accountability cost-effectiveness and independence, and still more importantly, there is no general law on auditing standards and procedures and there is no review of those standards and procedures by external auditors, nor any publication of auditing reports.

Chapter 29 Financial and budgetary provisions

Some progress has been made over the past year as regards the **national budget**. Statistics have been improved, and reinforcing financial management and transparency has been clearly identified as one of the main objectives in the fiscal area. The tax administration is being strengthened. A Public Expenditure and Institutional Review has been conducted by the World Bank and a Fiscal Transparency Review by the IMF. The number of budgetary and extra-budgetary funds has been reduced.

No significant developments can be reported with regard to **EC co-financed matters, own resources and administrative infrastructure**.

Overall assessment

Turkish budgetary practices are still in many respects inconsistent with standards generally applicable in the EC. The central budget submitted to Parliament excludes revolving funds and extra-budgetary Funds. There are some 3,000 revolving funds and agencies with special accounts, conducting off-budget operations amounting to more than 1% of GNP. Revolving and extra-budgetary Funds do not follow budget classification. A large portion of projects receiving foreign assistance are not included in the budget. Financial management responsibilities are fragmented among several administrations, each headed by a different minister. As a result, there is no clear ownership of the budget. Also, far greater realism is required in assessing budget magnitudes in the preparatory stage of Budget preparation.

Priority areas for further reforms should be to broaden the coverage of the budget, to strengthen the budget preparation, to modernise the budget classification and budgetary procedures, to clarify borrowing rules and limits for the Public Sector, and to improve transparency rules and accounting standards.

Progress is needed also with regard to **own resources and administrative infrastructure**. So far, little is in place or has been planned to ensure compliance of the Turkish financial system with EC requirements regarding own resources. Additional alignment is necessary for the proper calculation of VAT and GNP resources, as well as further administrative modernisation. Appropriate administrative structures are required also with regard to **EC co-financed measures**.

3.2. General evaluation

Overall, Turkey's alignment with the community *acquis* in the areas covered by the Customs Union is most advanced. However, since the last regular report, progress in transposition of legislation in these areas has been limited.

As a candidate country, Turkey has to start making substantial progress in alignment with the *acquis* in all other fields. Strategies and detailed programmes (including priorities) are necessary for the transposition, implementation and enforcement of these relevant areas of the *acquis*. The results of the preparation of the analytical examination of the *acquis* and the National Programme for the Adoption of the *Acquis* to be established by Turkey will be important tools for this work.

Substantial administrative reforms are necessary in order to implement and adequately enforce the different EC policies. The alignment of the Turkish *statistical* base with that of Eurostat is a very first priority.

Concerning *internal market legislation*, efforts are needed in the areas of free movement of goods, particularly with respect to the alignment of standards and removal of other technical barriers to trade. As a result of the obligations under the Customs Union this process has to be completed by the end of 2000. Trade in agricultural products remains a problem. For the *internal market*, Turkey needs to adopt framework legislation based on the principles of the New and Global approach. Substantial reforms have been conducted in the banking sector. No progress was recorded on the transposition of capital movement legislation. Serious problems in money laundering persist. Alignment in the areas of non-financial services and free movement of persons is at a very early stage.

Further work on all other aspects of the internal market remains to be done, as well as with respect to institution building, for example in the state aid sector. Further adjustments to Turkish monopolies are necessary. Turkish company law is subject to further Commission assessment of compliance with EC legislation. Substantial harmonisation is still required in the area of *taxation*. In the customs area, there is almost full alignment.

In the field of *telecommunications*, substantial progress has been made to introduce competition. Further alignment with the community *acquis* is needed. Piracy of audio-visual materials remains a serious problem.

The first priority in *agriculture* and *fisheries* is to start the introduction of basic mechanisms and structures, (statistics, land register, improved fishing fleet register, combat diseases, plant and animal identification systems, upgrading equipment) to be able to manage these policies. The *maritime* safety record of the Turkish fleet remains a matter of concern. Maritime and *road transport* needs to be adapted to EC standards.

In the *social policy* field, Turkish legislation is still very different from that of the Community in particular in terms of standards, methods and monitoring requirements. In the different areas much remains to be done. The same applies to key *energy* laws reforming the power and gas sectors, which are still pending. In the *environmental* sector, strategies for transposing the *acquis* as a first step are recommended.

Compared to 1999, no major progress has been made in the field of *justice and home affairs*. As regards migration, efforts need to be seriously stepped up to decrease the number of illegal migrants trying to reach Western European countries. It is recommended that the various departments in Turkey are better co-ordinated in order to increase the efficiency of checks, particularly exit checks.

A comprehensive policy framework is needed to further establish *financial control*. Substantial efforts are still required to modernise financial management, with a view also to protecting EC financial interests.

The overall conclusion is that substantial efforts are needed in policy fields outside the Customs Union to further align with the *acquis*, including the establishment of adequate implementation and enforcement mechanisms. This will require important reforms of the administration at all levels. In some cases this will entail the establishment of new structures, for example in the fields of state aids and regional development. Various issues mentioned above are identified as priorities in the Accession Partnership for Turkey.

C. Conclusion

A positive development since the last regular report is the launching in Turkish society of a wide-ranging debate on the political reforms necessary with a view to accession to the EU. Two important initiatives have been taken in this context: the signing of several international human rights instruments and the recent endorsement by the government of the work of the Supreme Board of Co-ordination for Human Rights. However, compared to last year, the situation on the ground has hardly improved and Turkey still does not meet the political Copenhagen criteria.

The basic features of a democratic system continue to exist but Turkey is slow in implementing the institutional reforms needed to guarantee democracy and the rule of law. Changes in the executive have taken place with respect to EU-Turkey relations but a number of basic institutional issues, such as civilian control over the military, remain to be addressed. With regard to the judiciary, the new procedure facilitating the prosecution of civil servants is an encouraging development. The important draft laws related to the functioning of the judiciary referred to in last year's regular report are still pending. No further improvement has taken place concerning the State Security Courts since the last reform of these Courts in June 1999. Corruption remains a matter of concern.

The death penalty is not being carried out, including in the case of Abdullah Öcalan, but many aspects of the overall human rights situation remain worrying. Torture and ill treatment are far from being eradicated, even though the matter is taken seriously by the authorities and the parliament and training programmes on human rights are being implemented. Prison conditions have not improved, although Turkey is embarking on a substantial reform of its prison system. Freedom of expression as well as freedom of association and assembly are still regularly restricted. A positive approach seems to be adopted towards non-Muslim communities with regard to freedom of religion, but this should be developed for all religious communities, including non-Sunni Muslims.

Compared to last year, the economic, social and cultural rights situation has not improved, particularly when it comes to the enjoyment of cultural rights for all Turks irrespective of ethnic origin. The situation in the Southeast, where the population is predominantly Kurdish, has not substantially changed.

Turkey has made considerable progress in addressing the most urgent imbalances in the economy, yet the process of achieving a functioning market economy is not completed. Considerable parts of the Turkish economy are already able to sustain competitive pressure and market forces in a customs union with the EC.

Turkey has made substantial progress in macroeconomic stabilisation. The privatisation of state enterprises has been successful, and important steps for the reform of the agricultural sector, the social security system and the financial sector have been taken.

However, macroeconomic stability is not yet achieved and a solid basis for sustainable public finances in the medium term remains to be established. There are still too many areas, both in manufacturing and the financial sector, where state dominance implies market distortions. The quality of education, health and infrastructure needs to be improved in order to enhance the competitiveness of Turkish human and physical capital and to allow for a decline in the present social and regional disparities.

The authorities should continue to focus on bringing down inflationary pressures and public deficits, and maintain their commitment to structural reforms and market liberalisation. They need to redefine their priorities, in a medium-term perspective, in order to provide sufficient funding for education, health, and social services. Significant restructuring is still needed in various sectors, such as banking, agriculture and state enterprises, in order to guarantee medium-term competitiveness for the economy as a whole.

Overall, Turkey's alignment with the community *acquis* in the areas covered by the Customs Union is most advanced. However, since the last regular report, progress in transposition of legislation in these areas has been limited.

As a candidate country, Turkey has to start making substantial progress in alignment with the *acquis* in all other fields. Strategies and detailed programmes (including priorities) are necessary for the transposition, implementation and enforcement of these relevant areas of the *acquis*. The results of the preparation of the analytical examination of the *acquis* and the National Programme for the Adoption of the *Acquis* to be established by Turkey will be important tools for this work.

Substantial administrative reforms are necessary in order to implement and adequately enforce the different EC policies. The alignment of the Turkish *statistical* base with that of Eurostat is a very first priority.

Concerning *internal market legislation*, efforts are needed in the areas of free movement of goods, particularly with respect to the alignment of standards and removal of other technical barriers to trade. As a result of the obligations under the Customs Union this process has to be completed by the end of 2000. Trade in agricultural products remains a problem. For the *internal market*, Turkey needs to adopt framework legislation based on the principles of the New and Global approach. Substantial reforms have been conducted in the banking sector. No progress was recorded on the transposition of capital movement legislation. Serious problems in money laundering persist. Alignment in the areas of non-financial services and free movement of persons is at a very early stage. Further work on all other aspects of the internal market remains to be done, as well as with respect to institution building, for example in the state aid sector. Further adjustments to Turkish monopolies are necessary. Turkish company law is subject to further Commission assessment of compliance with EC legislation. Substantial harmonisation is still required in the area of *taxation*. In the customs area, there is almost full alignment.

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A comprehensive policy framework is needed to further establish *financial control*. Substantial efforts are still required to modernise financial management, with a view also to protecting EC financial interests.

The overall conclusion is that substantial efforts are needed in policy fields outside the Customs Union to further align with the *acquis*, including the establishment of adequate implementation and enforcement mechanisms. This will require important reforms of the administration at all levels. In some cases this will entail the establishment of new structures, for example in the fields of state aids and regional development. Various issues mentioned above are identified as priorities in the Accession Partnership for Turkey.

Annexes

*Human Rights Conventions ratified by the Candidate Countries,
September 2000*

<i>Parties to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SV	TK
ECHR (European Convention on Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property et al.)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	O	X	X	X	X	X	X	O	X	X	X	X	O
Protocol 6 (death penalty)	X	X	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	X	X	X	X	X	X	O	O	X	X	X	O
European Convention for the Prevention of Torture	X	X	X	X	X	X	X	X	X	X	X	X	X
European Social Charter	O	X	X	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	X	X	O	X	O	O	O	O	O	X	O	X	O
Additional Protocol to the ESC (system of collective complaints)	O	X	O	O	O	O	O	O	O	O	O	O	O
Framework Convention for National Minorities	X	X	X	X	X	O	X	X	O	X	X	X	O
ICCPR (International Covenant on Civil and Political Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
Optional Protocol to the ICCPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to ICCPR (abolition death penalty)	X	X	O	O	X	O	O	X	O	X	X	X	O
ICESCR (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
CAT (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
CRC (Convention on the Right of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X

X = Convention ratified

O = Convention NOT ratified

BG = Bulgaria; CY = Cyprus; CZ = Czech Republic; EE = Estonia; HU = Hungary; LV = Latvia; LT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; TK = Turkey

Statistical data

	1995	1996	1997	1998	1999
Basic data	in 1000				
Population (average)	60.500	61.450	62.405	63.365	64.330
	in km²				
Total area	774.815	774.815	774.815	774.815	774.815

National accounts²⁰	In 1000 Mio Turkish Lira				
Gross domestic product at current prices	7.762.456	14.772.110	28.835.883	52.224.945	77.374.802
	In 1000 Mio ECU/euro				
Gross domestic product at current prices	130	143	168	178	173
	ECU/euro				
Gross domestic product per capita at current prices	2.100	2.300	2.700	2.800	2.700
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	7,2	7,0	7,5	3,1	-5,0
	in Purchasing Power Standards				
Gross domestic product per capita at current prices	5.216	5.643	6.124	6.360	5.881
	% of Gross Value Added				
Structure of production					
- Agriculture	15	15,9	13,6	16,9	14,3
- Industry (excluding construction)	25,8	24,2	24,2	21,4	21,8
- Construction	5,4	5,6	5,8	5,6	5,3
- Services	53,8	54,3	56,4	56,1	58,6
	as % of Gross Domestic Product				
Structure of expenditure					
- Final consumption expenditure	79,5	81,2	80,6	79,9	81,8
- household and NPISH	68,9	69,3	68,3	67,5	67,6
- general government	10,6	11,9	12,3	12,4	14,1
- Gross fixed capital formation	23,3	25,8	26,5	24	20,3
- Stock variation	1,6	-0,6	-1,3	-0,4	1,4
- Exports of goods and services	19,5	22,2	24,7	23,8	21,6
- Imports of goods and services	23,8	28,7	30,5	27,2	25

Inflation rate	% change over the previous year				
Consumer price index	89,1	80,4	85,7	84,6	64,9

Balance of payments²¹	Mio ECU/euro				
-Current account	-1.788	-1.919	-2.326	1.669	-1.286
-Trade balance	-10.207	-8.437	-13.631	-12.673	-9.848
<i>Exports of goods</i>	16.977	25.869	28.975	27.824	27.644
<i>Imports of goods</i>	27.184	34.306	42.606	40.497	37.492
<i>Goods and services, net</i>	4.927	2.948	-5.695	-7.262	-9.084
Net income	:	:	:	:	:
-Net current transfers	2.646	3.103	4.040	4.962	4.537

²⁰ National account data for 1998 and 1999 are from national source

²¹ Balance of payment data are from National Source, except for FDI (Eurostat).

-of which: government transfers	827	443	279	142	341
- FDI (net) inflows	677	569	710	838	763
Public finance	in % of Gross Domestic Product				
General government deficit/surplus ²²	-4,1	-8,4	-7,9	:	:

Financial indicators	% of Gross Domestic Product				
Gross foreign debt of the whole economy	37,85	37,01	37,96	37,46	50.47 E
	as % of exports				
Gross foreign debt of the whole economy	150,63	130,50	122,81	118,75	155.68 E
Monetary aggregates	1000 Mio ECU/euro				
- M1	4,8	6,5	6,6	6,7	7,9
- M2	31,3	40,4	47,6	56,0	74,6
Total credit	27,4	36,9	42,6	50,8	62,7
Average short-term interest rates	% per annum				
- Lending rate	:	:	:	:	:
- Deposit rate	76,0	80,7	79,5	80,1	78,4
ECU exchange rates	(1ECU/euro=..Turkish lira)				
- Average of period	59.912	103.214	171.848	293.736	447.230
- End of period	80.442	135.042	226.634	365.748	544.641
	1995=100				
- Effective exchange rate index	100,0	59,2	35,0	20,5	13,1
Reserve assets	Mio ECU/euro				
-Reserve assets (including gold)	10.570	14.222	17.882	17.628	24.288
-Reserve assets (excluding gold)	9.467	13.117	16.897	16.704	23.233

External trade	Mio ECU/euro				
Trade balance	-10.815	-16.087	-19.519	-16.345	-13.305
Exports	16.962	18.773	23.784	24.140	25.292
Imports	27.777	34.860	43.303	40.485	38.597
	previous year=100				
Terms of trade	97,2	99,3	104,7	101,7	98,7
	as % of total				
Exports with EC-15	51,2	49,7	46,7	50,0	52,6
Imports with EC-15	47,2	53,0	51,2	52,4	53,9

Demography	per 1000 of population				
Natural growth rate	15,7	15,6	15,4	15,2	15,1
Net migration rate (including corrections)	:	:	:	:	:
	per 1000 live-births				
Infant mortality rate	43,1	41,4	39,8	38,3	36,8
Life expectancy :	at birth				
Males:	65,7	66,0	66,2	66,4	66,6
Females:	70,3	70,6	70,8	71,0	71,3

²² Excludes local authorities

Labour market (ILO methodology)²³	% of labour force				
Economic activity rate	53,8	53,2	51,7	52,3	52,9
Unemployment rate, total	6,9	6,0	6,7	6,8	7,6
Unemployment rate of persons < 25 years	14,7	12,9	14,3	14,2	15,2
Unemployment rate of persons >= 25 years	4,4	3,9	4,2	4,5	5,2
Average employment by NACE branches	in % of total				
- Agriculture and forestry	46,8	44,9	40,8	40,5	41,3
- Industry (excluding construction)	15,3	15,9	17,8	17,4	16,7
- Construction	5,8	6,0	6,3	6,2	6,0
- Services	32,2	33,1	35,1	35,8	35,7

Infrastructure	km				
Railway network	8.549	8.607	8.607	8.607	8.682
	km				
Length of motorways	1.246	1.405	1.528	1.726	1.749

Industry and agriculture	previous year=100				
Industrial production volume indices	114,3	122,9	137,0	139,4	134,7
Gross agricultural production volume indices	:	:	:	:	:

Standard of living	per 1000 inhabitants				
Number of cars	50,5	53,2	57,1	60,5	63.3P
Telephone subscribers	219,9	232,2	251,9	267,2	280.6P
Number of Internet connections	:	:	:	3,6	6.8P

P=provisional figures E= estimates

²³ Labour Force: 15+ age; Average of April and October 1997,1998,1999 Household Labour Force Survey revised results.

Methodological Notes

Balance of payment

Exports of goods: recorded on FOB basis, including shuttle and transit trade.

Imports of goods: recorded on FOB basis, including imports of non monetary gold and transit trade 1992/93.

Services and incomes, net: sums of services and income.

Inflation

National Consumer Price Indexes are given. No proxy HICPs exist so far.

Finance

Sources

The IMF's 'International Financial Statistics' publication has been used as the main source. European Commission data is used as the source for exchange rates against the ECU, where available.

Gross foreign debt: OECD External Debt Statistics publication has been used as the source for 1995-6. The data for 1997-8 are the result of closer co-operation between BIS/ IMF/ OECD/ World Bank, and published jointly by them. Debt is of the whole economy, and includes both short- and long-term. According to the convention, the stock of outstanding debt is converted from US dollars into ECU at end-year exchange rates, whereas GDP is converted into ECU using annual average exchange rates.

General government deficit / surplus: Applicant Countries are presently unable to provide reliable data on a national accounts basis. Eurostat is working closely with these countries with the aim of improving these statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).

Method

Reserve assets: end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

General government deficit / surplus: approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts.

Gross foreign debt: gross foreign debt (in US \$) / GDP (in US \$ converted via exports weighted effective exchange rate)*100

Monetary aggregates: end-year stock data. M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. Total credit means domestic credit to the government and private sectors. It should be noted that the

problem of measuring the circulation of foreign currency in some Applicant Countries may affect the reliability of the data.

Interest rates: annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

Lending rate: lending rate applied to medium term management credits by Turkish Development Bank-end of period.

Exchange rates: where available, the ECU exchange rates are those officially notified to the European Commission.

External trade

Imports and exports (current prices): data are based upon the “special trade” system, according to which, external trade comprises goods crossing the customs border of the country. Trade data includes direct re-exports, trade in services and trade with customs free zones as well as licences, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.).

Trade Classification: merchandise trade flows should be using the commodity classification according to the Combined Nomenclature (CN).

FOB means that all costs incurred in transport up to the customs frontier are charged to the seller .CIF means that the purchaser pays the additional costs.

Imports are recorded on CIF basis, exports on FOB basis.

Imports and exports with EC-15: data declared by the Republic of Turkey.

Demography

The indicators are given for the mid years by provisional population projections. The method of the projection is cohort component method. The components are fertility and mortality. The cohorts are five years ago groups.

Labour force

Economic activity rate (ILO Methodology): percentage of labour force in the total population aged 15+. This rate is derived from LFS (Labour Force Survey) observing the following ILO definitions and recommendations:

- Labour force: employed and unemployed persons according to the ILO definitions stated below.
- The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of co-operatives or contributing family workers. Members of armed forces (excluding residents of military barracks) and women on child-care leave are included.
- The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have no work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.

Unemployment rate (by ILO methodology): percentage of the unemployed in labour force. This rate is derived from LFS (Labour Force Survey) observing the ILO definitions and recommendations (see ILO definitions above).

Average employment by NACE branches. This indicator is derived observing the ILO definitions and recommendations.

Infrastructure

Railway network: all railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural undertakings and which are not open to public traffic. The data considers the construction length of railways.

Length of motorway: road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

- (a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;
- (b) does not cross at level with any road, railway or tramway track, or footpath;
- (c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

Industry and agriculture

Industrial production volume indices: industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the ISIC Rev. 3 Classification Sections C, D, and E).

Gross agricultural production volume indices: gross agricultural production volume indices are calculated in constant prices of 1993. The quarter indices are calculation on the basis of the previous quarter.

Standard of living

Number of cars: passenger car: road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups.

Telephone subscribers: mobile and hand phones subscribers are not included.

Number of internet connection: the number of internet subscribers is the ratio of subscribers of internet service providers (ISP) to the inhabitant population.

Sources

Total area, national accounts, inflation rate, external trade, demography, labour market, infrastructure, industry and agriculture, standard of living, balance of payment: National sources.

Finance, GDP: Eurostat unless otherwise stated.