

REGULAR REPORT

FROM THE COMMISSION

ON

TURKEY'S

PROGRESS TOWARDS ACCESSION

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A. INTRODUCTION

a) Preface

The context of the regular report

The Cardiff European Council, which took place in June 1998, welcomed the Commission's confirmation that it will 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 December 1997 Luxembourg European Council decided to draw up a strategy to prepare Turkey for accession by bringing it closer to the European Union in every field. The European Council added that "the strategy will be reviewed by the Association Council in particular on the basis of Article 28 of the Association Agreement in the light of the Copenhagen criteria and the Council's position of 29 April 1997."

This report constitutes the Commission's response to the request of the Cardiff European Council. Its structure therefore takes account of the conclusions of the European Council in Copenhagen. It:

- describes relations until now between Turkey and the European Union, in particular in the framework of the Association Agreement;
- analyses the situation with regard to the political conditions referred to by the European Council (democracy, rule of law, human rights, protection of minorities);
- assesses the situation and the prospects for Turkey with regard to the economic conditions referred to by the European Council (market economy, capacity to cope with competitive pressure within the EU),
- examines Turkey's ability to take on the obligations of membership, i.e. the European Union *acquis* as set out in the EU Treaty, secondary law and policies;
- gives a general evaluation of Turkey's situation and prospects on the road to accession with particular reference to the European strategy set out in the Commission communication of 4 March this year.

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".

b) Relations between the European Union and Turkey

Historical background and recent developments

Relations between the European Union are based on the Agreement establishing an Association between the EEC and Turkey, the so-called Ankara Agreement, which was signed on 12 September 1963 and came into force on 1 December 1964. The cornerstone of this agreement is the establishment of a customs union in three stages. A Financial Protocol accompanied this agreement. A second and third Financial Protocol were signed in 1970 and 1977 respectively. The Ankara Agreement also set up an Association Council that meets regularly and discusses the work of the association. This institutional framework was expanded with the implementation of the final phase of customs union (see below).

The Association Agreement was supplemented by an Additional Protocol, which was signed on 23 November 1970 and came into force on 1 January 1973, establishing a timetable of technical measures to be taken to attain the objective of the customs union within a period of 22 years.

Following the military coup d'état in Turkey in 1980, the Community decided to freeze its relations with Turkey and to block the 4th Financial Protocol. Relations were gradually normalised after the restoration of a civilian government in 1983. The Council has not, however, so far approved the 4th Financial Protocol.

On 14 April 1987 Turkey presented its application for membership of the Community. **The Commission adopted its opinion on the application on 18 December 1989.** It concluded "that it would not be useful to open accession negotiations with Turkey straight away". The Commission gave both economic and political reasons. The Commission also noted "the negative effects" of the dispute between Greece and Turkey and "the situation in Cyprus".

The opinion states that the Commission "does believe, however, that the Community should pursue its cooperation with Turkey, given that country's general opening towards Europe". The Commission also considered that "the Community has a fundamental interest in intensifying its relations with Turkey and helping it to complete as soon as possible the process of political and economic modernisation".

On 5 February 1990 the Council adopted the general content of the Commission opinion and asked it to make detailed proposals developing the ideas expressed in the opinion on the need to strengthen EC-Turkey relations.

On 7 June 1990 the Commission adopted a set of proposals (**the "Matutes Package"**) including completion of the customs union, the resumption and intensification of financial cooperation, the promotion of industrial and technological cooperation and the strengthening of political and cultural ties. This package was not approved by the Council.

On 6 March 1995 the EC-Turkey Association Council decided to move onto the final stage of the **customs union** and resume **financial cooperation**. The Council also decided to step up cooperation in several sectors, to strengthen institutional cooperation and to intensify political dialogue. On 13 December 1995 Parliament gave its **assent to the customs union**. The

Decision on the final phase of customs union came into force on 31 December 1995; on the institutional front, it set up a consultation body, the Customs Union Joint Committee.

Following an incident between Greece and Turkey in January 1996 involving an islet in the Aegean Sea, relations between the two countries became increasingly tense.

On 15 July 1996 the General Affairs Council adopted the Regulation on the MEDA programme for 12 Mediterranean countries, including Turkey.

A **Parliament resolution** of 19 September 1996 “calls on the Commission to block, with immediate effect, all appropriations set aside under the MEDA programme for projects in Turkey, except those concerning the promotion of democracy, human rights and civil society”. This resolution was primarily motivated by the human rights situation in Turkey. Following a meeting of the Conference of Presidents on 28 November 1996, a specific procedure was adopted by which Parliament gives its opinion on the projects the Commission wished to finance under the MEDA programme (of which ECU 375 million for Turkey over the period 1996-99). Despite this procedure, by the end of 1997 commitments came to ECU 103 million. ECU 272 million is programmed for the period 1998-99.

In the wake of the informal Foreign Affairs Council in **Apeldoorn** (16 March 1997), the European Union, speaking at the meeting of the EC-Turkey Association Council on 29 April 1997, reaffirmed Turkey's eligibility for membership of the European Union. At the same time, the European Union also said that Turkey's application would be judged on the same criteria as the other applicant countries, and the Commission was called on to draw up a communication on the future development of relations between the European Union and Turkey, in the context of the customs union.

The Association Council was unable to achieve unanimous agreement on the 1995 “Customs Union” financial regulation. Greece and Turkey agreed, however, to set up a "Committee of Wisemen" to examine the problems concerning the Aegean Sea. This Committee has not yet met.

Agenda 2000, adopted on 15 July 1997, gives an evaluation of the Turkish economic and political situation. This document also states that Turkey should give “a firm commitment to resolve a number of problems in the region and contribute actively to a just and lasting settlement of the Cypriot question”.

Agenda 2000 considers that “the European Union should continue to support Turkey’s efforts to resolve its problems and to forge closer links with the EU” and it refers on this point to the communication on the further development of relations with Turkey adopted by the Commission on 15 July 1997.

This communication proposes a series of measures designed to consolidate the customs union and to extend it to new fields (services and agriculture) and to step up cooperation in several sectors (environment, energy, telecommunications etc), some of which come under the second and third pillars. The Commission also proposes helping Turkey in its efforts to improve the human rights situation. In this connection the Commission prepared a preliminary draft programme proposing cooperation with the Turkish authorities and NGOs to support the Turkish authorities' efforts to increase respect for human rights and the rule of law. The Turkish authorities have not yet followed up this proposal.

The **Luxembourg European Council of December 1997** confirmed at the highest level “Turkey's eligibility for accession to the European Union”. The Heads of State and Government also decided to draw up a strategy **“to prepare Turkey for accession by bringing it closer to the European Union in every field. This strategy should consist in development of the possibilities afforded by the Ankara Agreement, intensification of the Customs Union, implementation of financial cooperation, approximation of laws and adoption of the Union acquis; participation, to be decided case by case, in certain programmes and certain agencies...”**. In addition, the European Council has listed a number of principles which will allow strengthening ties with Turkey (paragraph 35 of the conclusions). The European Council also indicated that Turkey would be invited to participate in the European Conference on the same basis as the other applicant countries.

Turkey reacted negatively to the results of the European Council, considering that it had received discriminatory treatment compared with the other applicant countries. Ankara stated that it would not participate in the European Conference and that it was suspending political dialogue with the Union and therefore no longer wished to discuss with it issues such as relations between Greece and Turkey, Cyprus or human rights. According to Ankara, EU-Turkey relations would henceforth be based on existing texts (the Association Agreement, Additional Protocol and Customs Union).

As requested by the Luxembourg European Council, the Commission adopted on 4 March 1998 the initial operational proposals of the "European Strategy for Turkey" (see below).

The Cardiff European Council of June 1998 welcomed "the Commission's communication of 4 March 1998 on taking forward the European strategy to prepare Turkey for membership. It agrees that, taken as a package, this provides the platform for developing our relationship on a sound and evolutionary basis. The European Council invites the Commission to carry forward this strategy, including the tabling of any proposals necessary for its effective implementation. The strategy can be enriched over time, taking into account Turkey's own ideas. The European Council further invites the Presidency and the Commission and the appropriate Turkish authorities to pursue the objective of harmonising Turkey's legislation and practice with the acquis, and asks the Commission to report to an early Association Council on progress made. Recalling the need for financial support for the European Strategy, the European Council notes the Commission's intention to reflect on ways and means of underpinning the implementation of the European strategy, and to table appropriate proposals to this effect”.

The European strategy

The Commission adopted on 4 March 1998 a work programme to add substance to the Customs Union and extend it to other sectors (services and agriculture) and to step up cooperation in the other areas referred to in its July 1997 communication on the further development of relations with Turkey.

Following the Cardiff European Council's positive reception of the communication on the European strategy, on 22 July 1998 the Turkish authorities sent the Commission a document containing their reactions to the proposals contained in the European strategy. In general, the broad outlines of this document concur with those of the European strategy.

In September 1998 the first technical discussions took place between the Commission and the Turkish authorities to decide on a work schedule and the arrangements for implementing the European strategy. These discussions confirmed the Turkish side's willingness to cooperate on the proposals in the strategy.

In response to the Cardiff European Council's request, on 21 October 1998 the Commission adopted a communication on financial support for the European strategy. This communication includes a regulation regarding the implementation of measures to intensify the EC-Turkey customs union (ECU 15 million for 1999-2001) as well as a regulation on measures to promote economic and social development in Turkey (ECU 135 million for 1999-2001).

B. CRITERIA FOR MEMBERSHIP

1. Political criteria

Introduction

The Copenhagen European Council in June 1993 decided on a number of “political” criteria for accession, namely that “membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities”.

The Commission used several information sources to conduct the evaluation requested by the Cardiff European Council - contribution from the Turkish authorities, evaluations from international organisations (particularly the Council of Europe), reports from NGOs and reports of European Parliament and the member States.

The present analysis consists of a systematic examination of the organisation and functioning of the public authorities and of the systems for protecting fundamental rights. Rather than simply a formal description, it seeks to evaluate the effective functioning of democracy and the rule of law.

This evaluation concerns the situation in October 1998. It does not examine in detail the changes that have been announced for the future, although the intention to reform a given sector has often been taken into account in this evaluation.

Previous evaluations of the situation in Turkey

The December 1989 Commission opinion on Turkey's application for membership of the Community had already examined the political situation in Turkey.

The opinion stated that successive reforms had resulted in "a parliamentary democracy closer to Community models". The opinion noted, however, that "although there have been developments in recent years in the human rights situation and in respect for the identity of minorities, these have not yet reached the level required in a democracy."

In its Agenda 2000 document the Commission gave the following assessment of the political situation in Turkey:

“Turkey has a government and Parliament resulting from multi-party, democratic elections and an administration capable of framing and applying legislation compatible with the *acquis communautaire*. Despite political recognition of the need for improvement and certain recent legislative changes, Turkey’s record on upholding the rights of the individual and freedom of expression falls well short of standards in the EU. In combating terrorism in the south east, Turkey needs to exercise restraint, to make greater efforts to uphold the rule of law and human rights and to find a civil and not a military solution. Persistent cases of torture, disappearances and extra-judicial executions, notwithstanding repeated official statements of the government’s commitment to ending such practices, put into question the extent to which the authorities are able to monitor and control the activities of the security forces.

"Recent developments in the administration and the education system, while intended to strengthen secularism, nonetheless underline the particular role of the military in Turkish society... There are ambiguities in the Turkish legal system with regard to civilian political control of the military."

The European Union has repeatedly stated its views on the situation in South-East Turkey, particularly in meetings of the EC-Turkey Association Council. At the last meeting in April 1997, the Presidency statement on behalf of the European Union noted that: "While aware of the extent of the problem Turkey is facing in the south-east, the Union nevertheless stresses that the fight against terrorism must be conducted with due respect for human rights and the rule of law, and calls for a political solution. It is, therefore, imperative that Turkey fulfil its undertakings as a member of the Council of Europe and of the OSCE. Turkey should have no doubt that the Union upholds the territorial integrity of Turkey and all countries in the region, and condemns terrorism."

Recent political developments in Turkey

Over the past few years, the political situation in Turkey has been relatively unstable. The present minority coalition, led by Prime Minister Yilmaz (ANAP), came to power in June 1997 after several weeks of crisis, replacing the government led by Mr Erbakan (Refah) and Mrs Ciller (DYP). Due to its lack of a majority in the Turkish Grand National Assembly (TGNA), Mr Yilmaz's Government relies on the support of parties outside the coalition.

In January 1998, the Turkish Constitutional Court dissolved the Refah Party, confiscated all its property and banned its principal leaders from belonging to any political grouping for the following five years. This dissolution was the subject of a Presidency statement on behalf of the European Union on 21 January 1998. The statement notes that "this decision is in accordance with the provisions of the Turkish Constitution. However, the European Union is concerned at the implications for democratic pluralism and freedom of expression". Since the Refah party was dissolved, almost all its MPs have joined a new party, the Fazilet Party.

On 23 September 1998 the Court of Appeals upheld the ruling of the State Security Court against the mayor of Istanbul, Mr Erdogan, a member of the Fazilet party. He must serve a ten-month prison sentence, will be stripped of his office and can never again stand for election. Mr Erdogan was sentenced for a speech deemed to constitute racial or religious provocation. In a statement of 25 September 1998 the European Union "noted with regret the ruling of a Turkish Appeals Court" and "expresses concern at the implications for democratic pluralism and freedom of expression, which prosecution of democratically elected politicians for non-violent expression of their views is bound to have".

Early parliamentary elections are likely to take place in spring 1999.

1.1. Democracy and the rule of law

Turkey is a constitutional republic which has a multiparty Parliament, a President, a government, a public administration and a judicial system and a National Security Council. The political structure of Turkey is laid down in the 1982 Constitution drawn up by the military after the 1980 coup and approved by referendum. Article 2 of the 1982 Constitution describes the characteristics of the Republic as '...a democratic, secular and social state governed by the rule of law'.

In 1995, certain amendments were made to the Constitution by TGNA; these were a positive step contributing to the strengthening of democracy in Turkey. For example, these amendments make it possible for any association, such as a trade union, to take part in political activities; the minimum age of suffrage was reduced from 21 to 18 years and voting rights were extended to Turkish citizens living abroad; a major reform in the functioning of political parties was introduced; the minimum age for joining a political party was reduced from 21 to 18 years; the right to join a political party was also extended to the academic staff of universities and their students. However, the legislative follow-up to these changes has not yet been completed. For example, no law has yet been passed on the functioning of political parties and the right to vote for Turkish citizens living abroad.

Parliament

The Turkish Constitution (Article 7) provides that the TGNA has sole authority to enact laws with application throughout Turkey. The TGNA is a one-chamber parliament composed of 550 deputies, all elected by direct, universal suffrage. Elections are free and democratic and take place at regular intervals by secret ballot. Since 1982, no major electoral irregularities have been reported.

Bills may be introduced either by the Council of Ministers or by deputies. The laws passed by the TGNA are promulgated by the President within 15 days. The President may refer the law back to the Assembly for reconsideration.

The normal term of the Assembly is five years. The TGNA elects the President as head of state every 7 years, or when the incumbent becomes incapacitated or dies. The law on the Election of Deputies is based on proportional representation subject to a national threshold of 10%. At the last legislative election in 1995, this threshold led to the non-representation of about 4 million votes out of 28 million valid votes cast.

The executive

The executive has a dual structure. It is composed of the President of the Republic and a Council of Ministers.

The President of the Republic is elected for a term of seven years by the TGNA from among its own members by a two-third majority of the full membership of the TGNA. The President is not eligible for re-election. The term of the present incumbent, Mr Demirel, ends in 2000.

As far as **the government** is concerned, the Council of Ministers is chaired by the Prime Minister (designated by the President of the Republic from among the members of the TGNA) and composed of 32 Ministers nominated by the PM and appointed by the President of the Republic (Article 109 of the Constitution). Ministers must appear before Parliament for questioning on their areas of responsibility.

In September 1997 the Prime Minister, Mr Yilmaz, established (within the Secretariat General of the National Security Council, see below) the Prime Minister's Crisis Management Centre, where the Chief of the General Staff plays an important role. This Centre brings together the Prime Minister's crisis management functions in various situations which, for instance, threaten Turkey's territorial integrity or the democratic order, or in cases of natural and man-made disasters, major population movements or serious economic crises.

The Chief of the General Staff is not formally responsible to the Minister of Defence; he is nominated by the Supreme Military Council and appointed by the Prime Minister. In 1997, according to many Turkish newspaper reports, two operations by the Turkish armed forces against the bases of the Kurdistan Workers Party (PKK) in northern Iraq took place without the Chief of the General Staff giving the government any prior notice.

Turkey is divided for administrative purposes into 80 provinces. The Turkish constitution (Articles 126 and 127) distinguishes between the central administration and local administrations (municipality and village).

According to the constitution (Article 128), civil service regulations are laid down by law. Agenda 2000 had already confirmed that the Turkish administration functions to a satisfactory standard. There are, however, many cases of corruption, favouritism and influence peddling.

The Turkish legal system does not contain general legislation on anti-corruption measures. Special provisions on this matter are inserted into certain laws, including those on public procurement. Several parliamentary enquiries are under way involving prominent politicians suspected of embezzlement. A major judicial investigation began in August 1997 involving dozens of former members of the administration, mayors and politicians accused of committing irregularities in open tendering procedures.

One of the causes of corruption among officials is low public-sector pay caused by a lack of state budget funds. In the case of elected officials, corruption is partly caused by the absence of public funding for political parties.

Links between certain parts of the state apparatus and organised crime were also brought to light with the 'Susurluk' scandal in 1996. As a result of a road accident a member of the TGNA, a senior official in the Turkish police and a Turkish criminal sought by Interpol were all found to be travelling in the same vehicle. It was decided to conduct a parliamentary inquiry and a judicial investigation. The former was concluded in 1997 but the TGNA has not yet discussed the conclusions of the report. The report confirms the existence of links between certain parts of the state machinery and organised crime. The judicial investigation is still under way.

The judicial system

The Turkish Constitution (Article 138) lays down the basic principle of the independence of the judiciary. The judiciary includes judicial and administrative courts, the Constitutional Court, the Court of Appeals, and the Council of State. The Supreme Council of Judges and Public Prosecutors appoints and dismisses judges and prosecutors for the judicial and administrative courts, except for members of the Constitutional Court. These are appointed by the President of the Republic on the basis of a list of candidates selected by all the superior courts. The President of the Republic appoints the members of the Supreme Council for a four-year period on the basis of a list of candidates selected from the members of the Court of Appeals and the Council of State. The President of the Supreme Council is the Minister of Justice. The constitution (Article 125) provides for the judicial control of administrative acts.

There are currently 9 000 magistrate posts in Turkey but because of budgetary difficulties, only 7 000 of them are filled. The Turkish association of magistrates and the Turkish association of lawyers consider that 15 000 magistrates are required if the legal system is to function properly.

Difficult working conditions, including low salaries, are not conducive to the impartial administration of justice. There are many cases of corruption.

Two bills to amend the civil and the penal codes were approved by the Government in 1998 and transmitted to the TGNA. The bill concerning the civil code is mainly designed to eliminate the discrimination which still exists between men and women (see below). The purpose of the bill amending the penal code is to abolish capital punishment and soften the restrictions on freedom of expression by amending Article 312 (which is the basis for many proceedings in this area). Another bill amending certain articles of the penal code is currently at the Parliamentary Committee stage. The main purpose of this bill is to increase prison sentences for civil servants and public officials found guilty of acts of torture. If Parliament adopts these bills the Turkish body of legislation will be brought considerably closer to European standards.

In the case of alleged offences under the anti-terrorist law, including “all sort of actions to be attempted by a person...for the purpose of changing the attribute of the Republic...destroying the indivisible integrity of the state, its territory and nation, endangering the existence of the Turkish State and Republic, undermining or destroying or seizing the authority of the State...”, defendants are tried in State Security Courts. These courts deal with overtly political crimes. These courts were established in 1982 under Article 143 of the Constitution and started operating in 1984.

There are reasons to believe that by their very nature these courts do not offer defendants a fair trial. The key problem areas include over-reliance on obtaining confession rather than on traditional investigative methods; the relative status of the prosecutor (who sits next to the judges) and the defence lawyer (who sits below and whose points are not entered into the trial record verbatim but based on a summary of them by the judge); and the extreme slowness of trials and the fact that many defendants are held in custody throughout the duration of their trial without a clear justification having to be presented by the judge. There are also doubts about the impartiality of judges: one in three SSC judges are military judges who, as the European Commission on Human Rights recently pointed out, are serving military personnel and therefore subject to military discipline. This is the only example in Europe in which civilians can be tried at least in part by military judges. The rulings of these courts may be brought before the Appeals Court.

In civil justice and the normal criminal court system, there are concerns about the slowness of the judicial procedures. The judicial system’s excessive workload tends to undermine efficiency. The dependency of judges on decisions of the Supreme Council of Judges and Public Prosecutors is also a matter of concern, as is the politically inspired interference in the work of judges and public prosecutors by the Minister of Justice. The appointment of a new government (and cabinet reshuffle) can lead to major changes within the judiciary.

There have been several proposals by the government to make legislative amendments to improve the functioning of the judiciary in Turkey and to reinforce the independence of the judiciary which are still pending at the Parliamentary Committee level.

The National Security Council

Established by the 1961 Constitution, the **National Security Council** (NSC) plays a key role in the formulation and implementation of national security policy and also covers a wide range of

political matters. The NSC is chaired by the President of the Republic and is composed of the Prime Minister, the Chief of the General Staff, the Ministers of National Defence, Internal Affairs and Foreign Affairs, the Commanders of the Army, Navy and the Air force and the General Commander of the Gendarmerie. The recommendations of the NSC are not legally binding, but have a strong influence on government policy. The existence of this body shows that, despite a basic democratic structure, the Turkish constitution allows the Army to play a civil role and to intervene in every area of political life.

To sum up, the organisation of public authorities in Turkey has most of the basic features of a democratic system. The authorities generally have a competent administration capable of drafting and implementing legislation that is in line with the *acquis*. Several factors, however, prevent these authorities from functioning in the same way as they do in the Member States of the European Union. The National Security Council demonstrates the major role played by the army in political life. The army is not subject to civil control and sometimes even appears to act without the government's knowledge when it carries out certain large-scale repressive military operations. The judicial system includes emergency courts (the state security courts) which are not compatible with a democratic system and run counter to the principles of the European Convention on Human Rights. Major efforts need to be made to ensure the real independence of the judiciary and to give the judicial system the human and material resources it needs to operate in a manner consistent with the rule of law.

1.2. Human Rights and the Protection of Minorities

Turkey has ratified the most important conventions for the protection of human rights, with the exception of the International Covenant for Civil and Political Rights. Turkey ratified the UN Convention against Torture and the European Convention for the Prevention of Torture and other Inhuman or Degrading Treatment or Punishment. Turkey has ratified the European Convention for the Protection of Human Rights except the Protocols 4, 6 and 7. Turkey still keeps the death penalty in its legislation but it has not been applied since 1984.

Like other European constitutions, the Turkish constitution lists the country's main fundamental rights: the right to physical integrity, freedom of opinion and the press, freedom of association, freedom of assembly, freedom for workers to set up trade unions, freedom of religion, freedom to move and travel in Turkey and abroad.

Turkey has not signed the Framework Convention for the Protection of National Minorities.

in 1996, The human rights situation in Turkey is under the monitoring procedure of the Council of Europe, following a resolution of its Parliamentary Assembly in 1996.

Civil and political rights

The actual upholding of civil and political rights enshrined in the Turkish constitution and law remains problematic. Cases of torture, disappearances and extra-judicial executions are recorded regularly. Freedom of expression is not fully assured and is subject to numerous restrictions. It should be noted that most of the disregard for civil and political rights is

connected in one way or another with the way in which the government and the army react to the problems in the south-east of the country.

The Turkish authorities had embarked on a process of democratic reform that looked encouraging, especially in 1995, but it has not been pursued, apart from the notable exception of the amendment to the law on police custody in March 1997. There are specific problems in Turkey that give cause for concern.

Specific problems in Turkey

Persistent cases of **torture, disappearances and extra-judicial executions** are regularly recorded despite repeated official statements of the government's commitment to ending such practices. In many cases torture is suffered by persons during periods of detention incommunicado in police stations before they are brought to court. Many of the cases recorded are so precisely documented that there is no doubt about the responsibility of the police authorities. These cases put into question the effective control and supervision of the security forces. Appropriate standards of discipline are lacking for these officials. Criminal prosecution of civil servants for alleged offences emerging from their duties is generally subject to permission from the administrative authorities. When they take place, prosecutions and convictions of law enforcement officers (including police and gendarmerie) for torture and ill treatment have so far led to rather light sentences by European standards. Thus, systematic judicial prosecution of law enforcement officers for misdemeanours is not ensured.

In March 1997, the TGNA adopted a law reducing the duration of **police custody**. For suspected crimes falling under the purview of State Security Courts, a person in police custody must be brought before a court within a maximum period of four days, instead of fourteen. In the provinces in which a state of emergency has been declared, the period was reduced from thirty to a maximum of ten days. Access to legal counsel has now been established for detainees in regions under a state of emergency, as recommended by the Council of Europe's European Committee for the Prevention of Torture (CPT), but a detainee may still be held incommunicado for up to four days. The new periods of police custody now stipulated by law are still longer than is generally the case in the European Union. The CPT has however described the content of this law as an "important step in the right direction".

The way in which these new provisions on police custody are applied in practice will have to be monitored. The CPT paid another visit to Turkey in November 1997. Turkey has not yet authorised the publication of the mission report.

The jurisprudence of the European Court of Human Rights records many cases of inhuman or degrading treatment and torture in Turkey, especially in police custody.

Despite some improvements in recent years, **freedom of expression** is not fully assured in Turkey. An excessively narrow interpretation of the Constitution and other legal provisions (Articles 7 and 8 of the Anti-Terror Law, Articles 158, 159, 311 and 312 of the Criminal Code) concerning the unity of the state, territorial integrity, secularism and respect for formal institutions of the state is regularly used to charge and sentence elected politicians, journalists, writers, trade unionists or NGO workers for statements, public speeches, published articles or books that would be acceptable in EU Member States. On 1 January 1998, for example, 91 journalists were in prison in Turkey according to "Reporters sans frontières".

Many cases of harassment and police violence against individual journalists, politicians and human rights activists are regularly reported by domestic and international human rights organisations. In May this year the president of the Turkish human rights association, Mr Akin Birdal, was the victim of an assassination attempt. On behalf of the European Union, the Presidency immediately condemned this "cowardly attack". Mr Birdal's attackers were quickly identified as belonging to a nationalist grouping. They still under investigation and awaiting trial.

Regarding the **freedom of the press**, the Turkish media is characterised by a proliferation of private radio and television stations, a situation that developed when the state monopoly was ended in 1993 by an amendment to the constitution. The media is generally free to express its views.

Domestic and foreign publications providing a broad spectrum of views and opinions are widely available. Government censorship of foreign publications is rare. However, on occasion certain Turkish newspapers have been censored at the printing stage. There is also a high degree of self-censorship as the media are well aware of the strictness with which constitutional and legal limits to freedom of expression are applied.

Public criticism of the armed forces or the peaceful advocacy of alternatives to the basic principles of the Turkish State (e.g. territorial integrity and secularism) may both lead to criminal charges being pressed.

Confiscation of newspapers, books or films also occurs, mostly in relation to coverage of the situation in south-east Turkey. Objective and independent reporting by Turkish media of the Kurdish issue is not possible. Despite these restrictions, the media frequently criticise the authorities for their actions in other policy areas.

Shortly after Mr Yilmaz's government took office, an amnesty was adopted by the Turkish Parliament on 13 August 1997. This led to the release of seven newspaper editors who had been found guilty of "separatist propaganda and promotion of terrorism". This law suspended their sentences as long as they did not repeat the offence in the next three years.

In 1998, the Turkish Government invited the OSCE representative for the freedom of media to visit Turkey.

The conditions in **Turkish prisons** do not meet the standards laid down by the Council of Europe or the minimum standards of the UN. Most prisons are overpopulated and do not provide adequate medical care. Prison officers are often military personnel. This situation has already provoked a number of prisoners' revolts, especially in 1996. The TGNA Human Rights Committee (see below) carried out an information mission lasting several months this year to look into the state of Turkish prisons. The report has not yet been published.

Freedom of association is subject to certain limitations. Associations may not, for example, invite foreign associations to Turkey, issue public statements or organise any activities outside their premises without obtaining the prior permission of the authorities. In recent years, the number and activities of Turkish NGOs have increased significantly.

Freedom of assembly is also subject to limitations.

Reforms under way

In 1995, the government introduced **constitutional reform** designed to strengthen the functioning of democracy in Turkey. This reform was the first such undertaken by a civilian government for a long time. Although a Constitutional Harmonisation Committee was set up in the TGNA, entrusted with the specific task of preparing the implementation of the 1995 constitutional reforms, these reforms are only partly reflected in Turkey's legislation. **Article 8** of the Anti-Terror law was also amended in a more liberal sense so improving the protection of freedom of expression. This Article forbids "written and oral propaganda aimed at disrupting the indivisible integrity of the State of the Turkish Republic, country and nation..."; it also forbids "meetings, demonstrations and marches with this aim." The revised version of Article 8 introduced the concept of intent (or aim to disrupt territorial integrity and political unity) in written or oral propaganda, reduced the duration of imprisonment and created the possibility of converting prison terms into fines. The revised Article 8 was applied retrospectively to the cases of detainees, several dozen of whom were freed as a result of this review.

The **status of women** in Turkey is increasingly in line with that prevailing in most EU countries. Remaining legal discrimination is being done away with. Turkey ratified the Convention on the Elimination of All Forms of Discrimination Against Women in 1985. The Civil Code has yet to be brought into line with this Convention and still retains discriminatory provisions concerning marital rights and obligations. A new draft Civil Code was approved by the Council of Ministers on 25 August 1998. It is now at the Committee stage in the TGNA. If approved by the Parliament, these new provisions would remove most of the discrimination still existing between men and women. However, domestic violence is widespread. The TGNA passed legislation in January 1998 making spousal abuse illegal. There is no specific provision on violence against women in marriage in the Criminal Code; general provisions apply.

Capital punishment, though permitted under law, has not been exercised since 1984. Turkey was condemned in December 1996 for the violation of Article 3 of the European Convention on Human Rights. The draft Criminal Code currently before the Justice Committee of the TGNA would remove the death penalty from Turkey's statute book.

Human rights protection instruments

A Human Rights Committee was set up by the TGNA in 1991. It has carried out various fact-finding missions regarding the situation of human rights in Turkey.

In November 1996 the Turkish authorities set up a missing persons search unit within the Ministry of the Interior. There is, as yet, no evidence of its effectiveness.

In April 1997 the government established the High Coordinating Committee on Human Rights (chaired by the Minister of Human Rights and bringing together a representative of the Prime Minister and officials from the ministries of foreign affairs, the interior, justice, national education and health). Its role is to co-ordinate and monitor the implementation of measures aimed at improving the human rights situation. It may also submit proposals to that end to the Government. The Committee has prepared a draft law on the prosecution of civil servants and public officials, a draft Civil Code (see below) and the draft Criminal.

The appointment of an independent Ombudsman has long been under discussion by the TGNA. The adoption of this measure would improve the protection of human rights in Turkey considerably.

Since 1987 individuals in Turkey have been able to take cases to the European Court of Human Rights if they consider that their rights under this Convention have been violated. In January 1990 Turkey recognised the compulsory jurisdiction of the European Court of Human Rights.² Turkey is, however, the only country to have been convicted for hindering the submission of complaints to the European Commission of Human Rights.

Generally speaking, the body of domestic and international law is adequate for the protection of civil and political rights. Turkey has made an effort to gradually bring about a real improvement in the enjoyment of such rights as freedom of association, proof of this being the mushrooming number of NGOs in Turkey. On the other hand, and for reasons mostly connected to the situation in the south-east, the state of other civil and political rights is still giving cause for concern. Despite the reforms under way, there has been no substantial improvement in the protection of these rights since the Commission evaluated the situation in Agenda 2000. On 14 April, at the 54th meeting of the UN Commission on Human Rights, the European Union underlined continued reports of torture, extra-judicial killings and involuntary disappearances in Turkey. Exceptional measures brought in under the state of emergency imposed on South-East Turkey continue to restrict the normal exercise of rights guaranteed by law. Another problem is the implementation of particular laws, especially that concerning police custody, which has given rise to many cases of torture. Freedom of expression is still widely restricted, mainly on account of the regular application of the Anti-Terror law.

Economic, social and cultural Rights

Workers, except police and military personnel, have the right to associate freely and form representative **unions**. The right to strike is subject to various restrictions and complicated procedures. A 1995 constitutional amendment and an amendment to the law regulating trade unions in 1997 removed restrictions preventing trade unions from pursuing political activities. Public servants also obtained the right to establish trade unions but not the right to strike or to bargain collectively. The ratification by Turkey of several ILO (International Labour Organisation) Conventions has not brought about significant changes in labour law, for example concerning the prevention of unfair dismissal. There is no unemployment benefit in Turkey. Child labour is widely used in the informal economy. Turkey has been censured several times by the ILO.

The Government established an **Economic and Social Council** in March 1995 and it started work in March 1997. Of its 23 members, 10 are government representatives and seven are employers' representatives. The Council also includes four trade union representatives, one from the confederation of the disabled and one from the consumer protection association.

The repeal of the Law on Publications in **Languages** other than Turkish in 1991 enabled the publication of material in foreign languages, including Kurdish. Kurdish is no longer banned in

² The number of applications from Turkish citizens to the European Commission for Human Rights was 258 in 1995, 612 in 1996 and 427 in 1997. The European Court of Human Rights made judgements and decisions on 5 Turkish cases in 1996, 8 in 1997 and 9 in 1998.

the context of cultural activities but cannot be used in “political communication” or education. Radio and television broadcasting in any of the Kurdish languages is forbidden.

As far as **freedom of religion** is concerned, religious education (Sunni) in state primary schools is obligatory. Upon verification of their non-Muslim background, Lausanne Treaty minorities (see below) are exempted by law from Muslim religious instruction. Religious minorities recognised by Turkey are free to exercise their religion, but practice of religion other than (Sunni) Islam is subject to many practical bureaucratic restrictions affecting, for example, the ownership of premises and expansion of activities. The Assyrian Orthodox religion is not recognised as a religious minority and is subject to pressures in the exercise of its religious education. Turkey’s Alawi Muslims are estimated to number at least 12 million. There are no government-salaried Alawi religious leaders, in contrast to Sunni religious leaders.

The army plays an active role in upholding the principle of secularism in the Turkish society against certain strands of Islam that are considered to be opposed to this principle. The army has issued a number of warnings to the government in the framework of the National Security Council. Furthermore, the army regularly excludes from its ranks persons deemed to be involved in activities incompatible with secularism.

So, although Turkey has recently tried to improve the legal framework for economic and social rights, they are still subject to a number of restrictions, especially those concerning trade unions, and do not offer the enjoyment of rights to the same standard as that prevailing in the EU countries. Among cultural rights, freedom of religion is circumscribed by the difference of treatment accorded to recognised religious minorities (Lausanne Treaty) and other religious minorities, which suffer impediments to their ministry.

Minority Rights and Protection of Minorities

Turkey's population is over 62 million. This figure includes a population of Kurdish origin estimated at between 8 and 15 million, depending on the source. In accordance with the Lausanne Treaty, three minorities are officially recognised by the Turkish State: Armenians (50,000), Jews (25,000) and Greeks (5,000). Each freely manages its own churches, schools and hospitals. The three recognised minorities are required to register with the authorities. The identity cards of members of these minorities carried a mention of their allegiance. The interior ministry has a department dealing with minorities.

The constitution does not recognise Kurds as a national, racial or ethnic minority. There are no legal barriers to ethnic Kurds’ participation in political and economic affairs but Kurds who publicly or politically assert their Kurdish ethnic identity risk harassment or prosecution. Most of the Kurdish population lives in the South-East of the country. In this region, the Turkish authorities have engaged for over a decade in armed conflict with the Kurdistan Workers Party (PKK), whose goal is to create an independent state of Kurdistan in south-eastern Turkey, and which employs terrorist methods. As a direct consequence of this situation, there is evidence of large-scale forced evacuation and destruction of villages accompanied by abuses of human rights perpetrated by the Turkish security forces.

En 1996 the Turkish parliament's Human Rights Committee sent an information mission to look into the situation of people from villages that had been evacuated or destroyed and criticised the

government's failure to help them. The situation has in fact brought about a forced emigration from the south-east to the major cities in the west. Many schools have been shut, depriving a significant proportion of the school age-group of the chance to study. The Turkish Government has consistently refused to negotiate with the PKK. Mr Yilmaz's coalition government declared in 1997 its intention of supporting the social and economic development of that region. No concrete measures have so far materialised.

The state of emergency (Article 122 of the Constitution), declared in 1987, is still in force in six of the nine provinces in the south-east and continues to be extended every four months. Under the state of emergency, the Council of Ministers, chaired in this instance by the President of the Republic, may issue decrees having the force of law on matters necessitated by the state of emergency. These decrees must be submitted to the TGNA on the same day for approval. Regional governors have been granted extensive powers by decree to restrict fundamental rights and freedoms. Article 15 of the Constitution governs the suspension of these rights and freedoms and is inspired by Article 15 of the European Convention on Human Rights; like the latter, it also protects those rights which cannot be suspended even in times of emergency.

In the context of its monitoring of the situation in Turkey, the Council of Europe's parliamentary assembly asked the committee responsible for the obligations and undertakings of member countries to look into the question of the Kurdish minority. The committee visited Turkey from 6 to 9 September but its findings are not yet available.

Turkey does not recognise the **right of asylum** for refugees from outside Europe, although it does permit the UN High Commission for Refugees to conduct a screening process to determine whether such refugees are eligible for resettlement in a third country.

In Turkey there is a de jure and de facto difference in the treatment accorded to minorities officially recognised under the Lausanne Treaty and those outside its scope. The Turkish authorities do not recognise the existence of a Kurdish minority, considering them to be simply Turks of Kurdish origin. Kurds are found all over Turkey but are mainly concentrated in the south-east. They are economically and socially disadvantaged, and in the provinces where the state of emergency is in force they suffer all the consequences of continued terrorist action and the restrictions on the normal exercise of civil and political rights resulting from the state of emergency. In that connection, Turkey will have to find a political and non-military solution to the problem of the south-east. The largely military response seen so far is costly in human and financial terms and is hampering the region's social and economic development. It has also damaged Turkey's international image. A civil solution could include recognition of certain forms of Kurdish cultural identity and greater tolerance of the ways of expressing that identity, provided it does not advocate separatism or terrorism.

1.3. The Cyprus issue

Turkey has occupied northern Cyprus since 1974, maintaining an army nearly 35 000 strong there. In 1983 this part of the island proclaimed itself an independent republic that is not recognised by the international community, apart from Turkey. A number of UN resolutions have condemned the occupation of northern Cyprus by Turkey and the unilateral declaration of

an "independent republic" in the occupied portion in violation of the treaties which set up the Republic of Cyprus, and have judged the status quo to be unacceptable.

On 27 January 1997 Mr Denktash and President Demirel issued a joint declaration concerning northern Cyprus's gradual integration into Turkey. This declaration denounced the European Union's decision to open accession negotiations with Cyprus as a "historic mistake". It concluded by saying that "every step taken by the Greek Cypriot Administration on the course of unilateral membership in the EU will speed up the integration process between the TRNC³ and Turkey". In July Turkey and northern Cyprus signed an Association Agreement setting up an Association Council with the task of framing measures necessary to bring about economic and financial integration and partial integration in matters of security, defence and foreign policy.

The Commission is of the opinion that the measures taken by Turkey are incompatible with international law as expressed in the relevant UN resolutions, to which the European Union fully subscribes. The Commission continues to believe that the good-offices mission conducted by the UN Secretary-General with the backing of the UN Security Council and the European Union must have the active support of all the interested parties.

The Commission believes that Turkey, as the Turkish Cypriot community's guarantor, should exploit its special relationship to bring about a just and fair settlement of the Cyprus issue in accordance with the relevant UN resolutions, which are based notably on the establishment of a bi-zonal and bi-community federation.

1.4 General evaluation

On the political side, the evaluation highlights certain anomalies in the functioning of the public authorities, persistent human rights violations and major shortcomings in the treatment of minorities. The lack of civilian control of the army gives cause for concern. This is reflected by the major role played by the army in political life through the National Security Council. A civil, non-military solution must be found to the situation in south-eastern Turkey, particularly since many of the violations of civil and political rights observed in the country are connected in one way or another with this issue. The Commission acknowledges the Turkish government's commitment to combat human rights violations in the country but this has not so far had any significant effect in practice. The process of democratic reform on which Turkey embarked in 1995 must continue.

In addition to resolving these problems, Turkey must make a constructive contribution to the settlement of all disputes with various neighbouring countries by peaceful means in accordance with international law.

³ « Turkish Republic of Northern Cyprus », not recognized by the international, apart from Turkey.

2. Economic criteria

2.1 Introduction

In making its assessment of the economic situation and outlook in Turkey the Commission has been guided by the conclusions of the Copenhagen European Council (June 1993) which specified that accession to the Union called for "a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union".

After an overview of the economic situation and recent macroeconomic developments, we proceed to a general assessment of Turkey based on the criteria laid down by the European Council.

2.2 Economic criteria

Structure of the Turkish economy

Turkey has a population of over 62 million. The population's annual growth rate is put at 1.6%, continuing the downward trend evident in recent years. According to World Bank estimates, Turkey's GNP was USD 382.5 billion in 1996 (at purchasing power parity), equivalent to 5.2% of that of the European Union. Per capita GNP is only about a third of the Community average.

Turkey is a founder member of the IMF, the World Bank and the OECD. It ratified the GATT in 1951 and is a member of the WTO.

Since the early 1980s Turkey has been in the throes of radical economic change, enjoying strong growth (close to 6% on average over the period 1980-97), fuelled by a dynamic expansion of manufacturing and services and shrinkage of the agricultural sector. The **gradual opening of the Turkish economy** to the outside world has played a key role in this change. The share of exports in GNP stood at 4.3% in 1981 but had risen to 23.9% in 1997⁴, while imports rose from 11.7% to 29.5%. This opening was accelerated by the entry into force on 31 December 1995 of the Customs Union agreement with the Community. In 1997 the Community accounted for 46.7% of Turkish exports and 51.2% of its imports. An environment conducive to the development of exports and the private sector in general has been gradually established in place of import substitution and a dirigiste approach to industrialisation through State-Owned-Enterprises (SOEs). The importance of the state-run sector has waned as a result of privatisation and disinvestment but still accounts for 11% of value-added in industry and is a burden on the budget.

Despite some major changes the Turkish economy still has critical weaknesses: a large and inefficient agricultural sector, a weak financial sector and a number of socio-economic shortcomings. Chronic monetary instability is another problem.

Although **agriculture's** share of GNP fell from 33% in 1968 to 14% in 1996 (while the shares of industry and services rose from 17.1% to 27.7% and 49.8% to 58.3% respectively), the sector still accounts for 42% of the active population. The low productivity of farming is mainly

⁴ This figures excludes informal trade ("shuttle trade") with the CIS countries, which the Turkish central bank reckons was worth USD 5.9 billion in 1997 (3% of GNP).

attributable to the great number of smallholdings using inefficient production techniques. A major share of the output of these holdings is for auto-consumption. At present these holdings could not sustain competition from Community agriculture. Furthermore, the necessary modernisation of Turkish agriculture will pose a major challenge for the Turkish economy and society, particularly in terms of industry's ability to absorb the labour released by productivity increases in farming.

Services have grown strongly and accounted for 58.3% of GNP in 1996. The **financial sector** (2.3% of GNP) is quite small, however. Given the important intermediary role played by financial services, the weakness of this sector has big repercussions on the functioning of the Turkish economy.

The banking sector is made up of 72 banks, of which 59 are deposit banks and 13 investment and development banks. The sector is concentrated - 10 banks hold 70% of assets. Public banks (which held some 40% of assets at the end of 1996) have close relations with the Treasury and continue to support certain public sectors or enterprises with concessional loans (compensating current transfers or capital injections by the government). The major private banks are often offshoots of industrial groups.

Following the 1994 financial crisis that revealed the weaknesses of the banking sector, banking legislation was beefed up (especially as regards the limits on open positions in foreign exchange and prudential ratios). The government plans to tighten up banking supervision and improve the monitoring of non-performing loans and control the banks' foreign exchange debts. Indebtedness has risen sharply, mainly in order to finance the purchase of government bonds in Turkish liras.⁵

Istanbul has an active stock market quoting over 700 companies. In 1997 the volume of transactions rose by over 50% to USD 58 billion and market capitalisation reached USD 61 billion (about 30% of GNP).

The principal **socio-economic indicators** show that Turkey is behind not only the EU but also other countries with a comparable per capita income. In 1995 28% of women and 8% of men were illiterate. Life expectancy was 66 years for men and 71 for women. Infant mortality stood at 42 deaths per 1000 live births (against between four and eight per 1000 in the Member States). Public spending on health and education accounted for only 6% of GNP in 1996, which is quite low.

These lags in development go hand in hand with large disparities between regions and between town and country. The disparities range from per capita income to access to basic infrastructure (piped water, the road network, etc.). Overall, real Turkish GNP rose by 22% between 1987 and 1994 but that of eastern Anatolia rose by just 10% compared to 27% in the Aegean Sea area. In 1994 per capita GNP in the Marmara region was about 3.5 times higher than that of eastern Anatolia. And the gap has widened.

⁵ Open positions in foreign exchange before the 1994 financial crisis were estimated at nearly USD 8 billion but had fallen to USD 4 billion in 1997. But they apparently rose again in the first half of this year, overtaking the end-1993 level.

Macroeconomic developments

As noted earlier, the Turkish economy has recorded remarkable growth since the early 1980s. After the recession at the end of 1994/beginning of 1995, the economy has bounced back with growth of over 7% since 1996. Growth has been boosted by a rapid recovery in investment, partly due to the new opportunities created by customs union and the opening of the CEECs and the former Soviet Union. Exports of industrial products to the Community and eastern Europe, above all Russia, have been growing fast. The total volume of exports of goods was growing by over 10% in 1995 and 1996, and by nearly 15% in 1997. This performance is attributable to greater competitiveness following devaluation in 1994/95 and also to Turkish industry's capacity to immediately take advantage of new market openings. Another reason for strong growth is an expansionist budgetary policy and a monetary policy that responds flexibly to the demand for credit from the public and private sectors.

Inflation is an ongoing problem for Turkey. There have been a number of attempts to curb inflation but up to now anti-inflation policies have never been tough or long-lasting enough to bring it down substantially and permanently. From the end of 1995 to the end of 1997 annual inflation rose from 80% to 100% (consumer prices).

As far as public finances are concerned, the public sector borrowing requirement in the broadest sense (public administration, SOEs, extra-budgetary funds, etc.) has doubled, rising from 5.8% of GNP to 11.6% between 1995 and 1997.

Tax revenue stood at 20% of GNP in 1997. It has risen by nearly two percentage points since 1993 as a result of measures to improve collection. Taking the central administration alone, this year's budget forecasts an increase in revenue from 16% to 18%, still very low by Community standards. Non-tax revenue stood at 7.7% of GNP in 1997.

The structure of public spending is evidence of constraints on the budget that cause sizeable imbalances.: public-debt servicing (8.4% of GNP in 1997)⁶, transfers to SOEs (0.8 % of GNP in 1997), a growing deficit in the social security system (3% of GNP), various aids for agriculture (some 2.2% of GNP). This has severely restricted investment in human capital (education and health), infrastructure and public administration.

Total **employment** rose from 19.7 million in 1993 to 21.9 million in 1997. The unemployment rate rose to 8% after the 1994 financial crisis but fell back to 6% in 1996. This fall reflects the flexibility of real wages (which fell by some 25% between 1993 and 1997).

The active population is relatively small (50.8% in 1997), mainly because of the low female participation rate (43% in rural areas, falling to just 16% in towns) but also the fact that the retirement age is often relatively young. A little over half the labour force is covered by the social security system. About 30% of registered employment is in the wider public sector.

⁶ Note here that monetary instability is a highly complicating factor in public-debt management both because of the inflation premium demanded and the early maturity forced on government bonds.

Population growth (1.6% a year), demographic structure (a third of the population is under 14) and a forecast increase in the participation rate point to a rapid rise in the active population in coming years. This will be both a potential asset and a major challenge for the Turkish economy.

The rapid growth of recent years has gone hand in hand with a significant expansion of **foreign trade**. Exports of goods increased by 21% in 1995-97 and imports by 37% (in dollars). The resulting deterioration in the balance of trade has, however, been offset by a substantial increase in earnings from services, especially tourism. The current account deficit was between 2.5% and 3% of GNP in 1996-97, a sustainable level for a country like Turkey. If informal trade was taken into account, this deficit would disappear.

Net capital inflows, attracted by high interest rates, have more than offset the current deficit until the first half of this year. Official reserves have thus grown steadily but domestic imbalances leave Turkey's external account very vulnerable to any reverse in these capital flows.

The government which took office in mid-1997 has embarked on a **stabilisation programme** aimed at bringing inflation down to under 10% by the end of the year 2000. On this subject it is conducting a detailed dialogue with the IMF, though the programme does not require financial support.⁷ The key components of the programme reflect the short- and medium-term priority actions needed to break out of the inflationary cycle gripping the economy. The programme aims to restructure the budget and restrict the money supply to the economy, launch the reforms needed to strengthen public finances (above all the social security accounts - health and pensions) and speed up privatisation so as to reduce the borrowing requirement and boost economic efficiency. It also proposes to raise the prudential ratios applied to the banking sector and gradually reduce the level of subsidy on credit to the agricultural sector.

It is still too soon to judge whether the programme will stabilise the economy. In the first half of this year performance was encouraging. The pace of privatisation picked up, largely thanks to the sale of licences to operate mobile phone networks. Tax revenue rose substantially and measures were taken to tackle tax evasion. All this led to an initial fall in nominal interest rates from some 120% at the end of 1997 to 75% in mid-July. However, this trend reversed afterwards. This rise of interest rates which reached a level of 135% at the end of October is partly a reflection of a stronger than expected salary increase in the public sector. It is also the result of the crisis that has affected first the Russian economy and subsequently the international financial markets. This crisis has significantly worsened the international environment in which Turkey has to implement its stabilisation programme by provoking a capital outflow and making Turkey's access to international capital markets more difficult. Moreover, given the importance of Turkish trade with the CIS republics, the outlook for export and economic growth has deteriorated.

2.3 The Turkish economy in the perspective of membership

⁷ The last IMF programme of 1994 (stand-by arrangement) was suspended in 1995.

The existence of a functioning market economy

Until the early 1980s Turkey's economic development policy was centred on state-run industries and a dirigiste approach that left little room for market forces. Over the last 20 years this policy has been reshaped and in the case of goods and services Turkey has chosen a market-based development option.

Turkey has **the institutional framework** of a market economy. Since the negotiations that led to Customs Union, much progress has been made in economic legislation, notably in the fields of competition and intellectual property. The strict enforcement of this legislation still has to be achieved, something that will call in particular for a training drive within the judiciary. Turkey has still not legislated for the possibility of appeal to international arbitration with a view to encouraging foreign investment.

The relative stability of the number of small and medium-sized enterprises hides a considerable turnover in terms of start-ups and closures. In 1995, for instance, 22 872 businesses were set up and 19 255 closed down (commerce excluded). This shows that there are not any major obstacles, at least not formal ones, to entering and leaving the market. SMEs do, however, have difficulty in getting credit.

On the question of price **liberalisation**, the price regime of goods produced in the private sector can be regarded as liberal. But the role still played by the state in setting the prices of the SOEs and in agriculture should not be underestimated. The public authorities can influence the pricing policy of state producers though they do not always do so. The energy sector where the state has a dominant position is a noteworthy example.

Agriculture enjoys price support and intervention. The balance between supply and demand is far from being set by market forces.

As far as external liberalisation is concerned, with the entry into force of the Customs Union on 31 December 1995 Turkey abolished duties and other charges, quantitative restrictions and measures having an equivalent effect on industrial products imported from the Community. It has already fulfilled most of its undertakings concerning harmonisation of customs legislation, including the common external tariff. According to a recent WTO report, the customs union has generally improved third countries' access to the Turkish market. Furthermore, in accordance with the customs union agreement, free trade agreements covering industrial products have been concluded or are being negotiated/ratified with a good number of Community partners, including the other applicant countries.

The level of external protection for agriculture remains very high, rates varying between 20% and 145%.

Although foreign direct investment requires prior authorisation, it is usually encouraged. All sectors are theoretically open to foreigners and there is no discrimination between foreign and local investors, even when it comes to investment aid. There are restrictions, however, especially in the finance, transport and energy sectors.

Foreign exchange operations for current transactions are free.

Turkey has not attained the degree of **macroeconomic stability** required to participate in the internal market and not interfere with its smooth working. Hitherto, attempts to bring about the reforms needed to achieve and maintain macroeconomic stability have failed. One reason for this is political instability. The lack of an enduring consensus on economic strategy among the main political, social and economic forces is another. It remains to be seen whether the government's new stabilisation programme will be successful.

Largely as a result of chronic monetary instability and the need to satisfy the public sector's excessive borrowing requirements, the financial sector has been deflected from its essential role of channelling savings into productive investment, turning to arbitrage and placement of securities instead. Monetary instability has considerably reduced the time scale governing the relationship between savings and investment, most operations being short or extremely short term.

This analysis has shown that Turkey is a market economy with a developed institutional and legislative framework. Implementation of legislation still calls for more effort by the authorities. There are no major obstacles, at least not legal ones, to entering or leaving the market, but access to credit could be improved. On the question of liberalisation, the external trade regime is largely identical to that of the Community, following the conclusion of the Customs Union agreement. While price-setting in the private sector is almost completely liberalised, the state still has a heavy hand when it comes to agricultural prices and those of the SOEs in sectors such as energy and transport. These controls weigh on the balance between supply and demand and should be reduced in order to strengthen the market economy in Turkey.

The lack of a stable and predictable macroeconomic framework in Turkey clearly impedes the smooth running of a market economy; in particular monetary instability prevents the financial sector from fulfilling its role as an intermediary between savings and productive investment. Experience shows that progress on this front will call for efforts to frame and implement reforms as part of a medium-term strategy to strengthen the financial sector. Another raft of reforms should be aimed at redirecting budget priorities. Consensus on this strategy will also have to be built up in society in order to ensure continuity. This will entail, among other things, that the need to tackle inequalities is acknowledged in economic strategy.

The capacity to stand up of competition and market forces within the Union.

Evaluation of this capacity involves a prospective assessment. In addition to the existence of a stable macroeconomic framework (see above), we have to take account of the degree of commercial integration into the Community economy, the structure of the business sector, the ability of the economy to adapt to the pressure of competition, the situation of the financial sector and the state of human and physical resources.

Commercial integration: the proportion of GNP constituted by imports and exports of goods and services (23.9% and 29.5% respectively in 1997) reflects the Turkish economy's high degree of integration into the world economy. There has been a major shift in exports in the last five years: the share of the former Soviet countries rose from 6% in 1993 to 12% in 1997 (not including informal trade) at the expense of partners such as the Middle East countries, the Community also being affected (its share falling from 53.2% in 1990 to 51.2% in 1997). Nevertheless, the EU remains Turkey's leading trading partner. It is worthy of note that Turkish industry is standing up to full competition from the industries of Europe and third countries with

the protection from the latter only of the Common Customs Tariff. Although the Customs Union is generally working smoothly, however, some problems have arisen in trade between the two parties (Turkey's ban on imports of beef and live animals and its maintenance of an import monopoly on tobacco and alcohol; the EU's ban on imports of some fishery products for health reasons).

While agricultural products as a percentage of Turkish exports have declined, from 75% in 1965 to about 10% in 1996, manufactures have been steadily gaining in importance and now stand at nearly 80%, more than half of which in the traditional sectors of textiles and clothing. Half of Turkish exports to the EU are made up of these products. Exports of transport equipment and capital goods have also risen in recent years, largely at the expense of iron and steel. These trends confirm that Turkish industry is becoming more competitive in more sophisticated sectors.

Foreign direct investment has been fairly low since the early 1990s (some USD 950 million a year, less than 0.4% of GDP). Most of it is from Europe.

The **privatisation** of the major SOEs started in the mid-1980s. Until the end of last year the results were rather disappointing (aggregate earnings of just some USD 4.5 billion) and while there has been an encouraging acceleration in the first half of this year (earnings of USD 3 billion), it remains to be seen whether the government will continue on this course.

Manufacturing is dominated by small and very small firms. In 1994 small firms (employing between 10 and 49 people) accounted for 41.6% of all firms in the sector and 6.9% of the employees. But they produce only 2.2% of the value added. Despite the flexibility they have shown themselves capable of in previous financial crises, they have a low level of technical development and lack modern management techniques. Once under pressure from more competition, these weaknesses might pose a real problem.

The **financial sector** has a number of weaknesses that could cause major problems once the sector is open to competition from Community banks. The important role of the state in banking (public banks still account for nearly 40% of the assets) and cross-shareholding between the financial sector and large industrial concerns are an extra handicap. The concentration of banking activity on the management of portfolios largely made up of government bonds (because of very high nominal interest rates) weakens banks and stops them from performing their main role as intermediaries. Under these circumstances, macroeconomic stabilisation could endanger the sector, because it would reduce existing opportunities. Turkish banks' weakness in these areas makes them less competitive than Community banks on average.

Turkey's relatively young **population** is potentially a great economic asset. But despite considerable progress recently, Turkey is still lagging behind in human development. The shortcomings of the public health and education systems impact directly on the quality of human capital and thus the economy's capacity to face competition.

Turkey's economic growth has taken place despite inadequate **infrastructure**. The road network in particular needs improving to cope with the real level of traffic.

Although Turkey has made progress in developing its scientific and technological infrastructure, industry's investment in research and development is still quite low. The government has become aware that the situation could adversely affect Turkish industry in the long run, in

sectors that are not labour intensive. Some efforts have been made in that direction. Although foreign investment is being actively sought by Turkey, it has not had much impact on technology transfers.

We can thus report that the integration of the Turkish economy into the Community economy is progressing in certain areas. Turkish industry has shown that it is able to take advantage of the opportunities ushered in by the Customs Union agreement and resist greater competition. Turkey has successfully withstood the dismantling of all its customs protection, and has embarked on a large-scale exercise of bringing its legislation closer to that of the Union. State intervention is declining and less financial support is being given to the SOEs.

But as regards finance SMEs operate in a more difficult environment than their Community counterparts. However, their development is vital if the Turkish economy is to be in good shape to go through the necessary structural adjustments. The financial sector therefore has to be reinforced to make banks more competitive. The generous pool of human resources that is a potential asset has to be improved through investment in health, education and vocational training. A sustained effort must be made to improve basic infrastructure. The vulnerability of Turkey's financial and economic balances seriously weakens its capacity to withstand sustained competition.

2.3 General evaluation

On the economic side, Turkey has most of the hallmarks of a market economy, possessing a well-developed institutional and legislative framework, a dynamic private sector and liberal trade rules. The economy has considerable potential for growth and has shown great adaptability, particularly in the context of the customs union, which has contributed significantly to its modernisation. These factors should in theory enable Turkey in the medium term to acquire a viable market economy able to withstand the pressure of competition. However, if it is to be able to run its economy efficiently and make the most of its advantages, it must establish a credible, durable framework of macro-economic stability and a climate in which the financial sector can genuinely act as an intermediary. The authorities now appear to be heading in the right direction, and provided they can continue with this strategy the viability of Turkey's market economy should improve. In this context the wide regional development disparities are a salient factor; closing the gap should be high on the government's list of priorities. The European Union will do its best to help the backward regions, inter alia by deploying the resources of the European strategy.

3. Ability to assume the obligations of membership

Like the other applicant countries, Turkey is relying on a gradual approach for adoption of the Community acquis:

- Both the 1963 Association Agreement between the Community and Turkey and the 1970 Additional Protocol set out the fundamental aims of the Association which include promoting the continuous and balanced strengthening of trade and economic relations and establishing the customs union in three successive phases. The Ankara Agreement likewise set out the aim of freedom of movement for workers which, for well-known social and economic reasons, could not be completed within the planned timescale. The introduction of the final phase of the customs union on 31 December 1995, as laid down by Association Council Decision No 1/95 on the implementation of the final phase of the customs union (hereafter the Customs Union Decision), lent considerable impetus to the process of aligning Turkish and Community legislation. To enable the customs union to function properly, Turkey had to adopt large parts of the Community acquis even before its entry into force, notably in the areas of customs, commercial policy, competition and the protection of intellectual, industrial and commercial property. The situation with regard to the adoption of the acquis in these fields is discussed below in 3.1.

- The Luxembourg European Council of 12 and 13 December 1997 considered the approximation of legislation and adoption of the Community acquis as key elements in the strategy to prepare Turkey for accession "by bringing it closer to the European Union in every field". In response to the European Council's request, the Commission adopted a communication on 4 March 1998 on a "European Strategy for Turkey" which contains the initial operational proposals of the strategy. In addition to the extension of the customs union to the services sector and agriculture, the communication proposes stepping up cooperation and the approximation of legislation in certain sectors of the acquis. The Cardiff European Council of 15 and 16 June welcomed the strategy and considered that "taken as a package, this provides the platform for developing our relationship on a sound and evolutionary basis". Turkey put forward its own suggestions vis-à-vis the proposals in a document dated 17 July ("A strategy for developing relations between Turkey and the European Union - Proposals of Turkey") which was sent to the EU Presidency and the Commission. On the whole there is a lot of common ground between this document and the European strategy. Implementation of the proposals contained in the strategy would help Turkey take a step nearer adoption of the acquis. The position with regard to the adoption of the acquis in the sectors covered by the European strategy is discussed in part 3.2.

- The proposals in the communication of 4 March are presented by the Commission as initial proposals which may give rise to others to be examined by the Turkish authorities and the Commission. The Cardiff European Council also invited the Presidency and the Commission and the appropriate Turkish authorities "to pursue the objective of harmonising Turkey's legislation and practice with the acquis". When the time is ripe, there will have to be an in-depth examination of the all Turkish legislation. The aim of the exercise proposed at the Cardiff European Council is to extend the existing harmonisation and at the same time tackle sectors of the acquis which have so far received little attention in contacts between the

Community and Turkey. The situation with regard to the adoption of the *acquis* in these sectors is examined in part 3.3.

As far as the administrative and judicial capacity to apply the *acquis* is concerned, 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. As stated in part One of this report, the observation was made in Agenda 2000 that the Turkish Government has the necessary capacity to draw up and apply legislation compatible with the *acquis*. However, Part One also identifies a number of shortcomings in the judiciary. The individual capacity of each government sector must therefore be analysed in due course.

3.1 Sectors of the *acquis* covered by the customs union

Following the assent given by Parliament on 13 December 1995, the final phase of the customs union entered into force on 31 December of that year. The Commission has kept the Council and Parliament regularly informed of the functioning of the Customs Union in particular through the annual report on “the development of relations with Turkey since the entry into force of the Customs Union”. Each report has found that the customs union works in a generally satisfactory way consistent in the main with the obligations ensuing from the Customs Union Decision. As for its economic impact, the balance of trade in goods continues to be in favour of the Community (ECU 10.4 billion in 1997). Turkey has raised the matter of the imbalance in its trade with the Community on numerous occasions. However, note that trade in services between the Community and Turkey goes some way towards making up for the deficit in trade in goods.

Internal market

Free movement of goods

Current situation

As agreed in the framework of implementation of the final phase of the customs union, on 31 December 1995 Turkey abolished all customs duties and charges having equivalent effect and all quantitative restrictions and measures having equivalent effect on industrial products exported from the Community. To this day only a handful of cases of technical barriers to the free movement of industrial products have been brought before the Customs Union Joint Committee, whose role is to monitor the customs union. In most of the cases raised in the Committee, the parties involved have reached a mutually satisfactory solution.

Processed agricultural products are subject to special tariff arrangements under the customs union. Both sides have abolished the industrial component of tariff protection in trade between them and have agreed to tariff reductions on the agricultural component. A number of administrative barriers still exist, however, with regard to some of these products since the entry into force of the customs union.

Freedom of movement for agricultural products is one of the fundamental aims of the Ankara Agreement which was reaffirmed in the Customs Union Decision. Each party continues to grant reciprocal concessions on certain products. A bilateral agreement to improve the level of liberalisation of agricultural trade has been concluded and entered into force on 1 January 1998.

However, a ban on importing beef and live animals into Turkey prevents its effective implementation.

Turkey is obliged to incorporate into its national law by 31 December 2000 all Community legislation on the removal of technical barriers to trade. Pursuant to Article 8(2) of the Customs Union Agreement, the EC-Turkey Association Council adopted Decision 2/97 drawing up the list of Community acts to be adopted by Turkey.

Turkey is currently preparing a framework law on the preparation and implementation of technical legislation, whose aim is to implement in Turkish legislation the **principles of the Community new approach** and global approach. However this law is also intended to implement some old approach Community legislation, which seems difficult to reconcile with Community legislation.

Legislation is also under preparation to set up the appropriate **institutions** for the implementation of Community legislation. It is especially regrettable that the bill on the Establishment and Duties of the Turkish Accreditation Council has yet to be adopted by the Turkish Parliament. Little progress has been made on the implementation of European standards by the standardisation body where the current rate of transposition is 8%. Problems with the status of the standardisation body still have to be resolved. It is a government body reporting directly to the state ministry and carrying out different functions, e.g. legislative, standardisation, accreditation and certification.

The protracted discussions on the framework legislation on the new approach and on the institutional issue explain the delays in the effective implementation of the specific Community **new approach Directives**. A series of drafts and implementing decrees are under preparation.

Some progress has been achieved in the **foodstuffs sector**, where the Turkish authorities claim full implementation of the "acquis". However, Turkey still arranges checks at the customs point of entry on exported food products.

In the **motor vehicle sector**, Turkey has transposed the Community framework Directive on motor vehicles and their trailers. The Turkish authorities are currently working on the implementation of the separate Community Directives as well as on the two or three-wheel motor vehicles and agricultural tractors Directives.

In the **chemical sector**, the Turkish authorities have focused on the implementation of Community Directives on limitations on chemical substances and preparations and on detergents. Work is currently under way to complete the harmonisation process in this sector.

Some progress has been made in the **pharmaceutical** sector where Community Directives on marketing authorisation, testing, manufacturing and colouring matters have already been transposed. A Regulation on Cosmetics, transposing the Community Directive on cosmetics, has been adopted. The Community Directives on methods of analysis for checking the composition of cosmetics still need to be implemented.

Evaluation

The Turkish administration as a whole has put considerable effort into establishing the necessary conditions for the customs union to function properly by the planned deadline. Since the entry

into force of the customs union, it can be considered that both parties generally ensure the free movement of industrial products between them.

There is little alignment, on the other hand, of Turkish legislation with the *acquis* in the area of removing technical barriers to trade. The framework legislation to enable Turkey to take up the basic principles of the Community new and global approaches is still missing. Consequently, very little progress has been made in the sectors covered by the new approach Directives. Some progress has been made in the sectors covered by the old approach legislation even if the Commission has not had the opportunity to check the compatibility of the Turkish legislation. Much still has to be done therefore to ensure compliance with the obligations ensuing from the Customs Union Decision by the deadline of 31 December 2000.

Competition

Current situation

In the context of the implementation of the customs union, Turkey has already complied with some of its obligations as regards ensuring the compliance of its competition rules with Community law. In December 1994, it adopted a Competition Act that complied with Community legislation and incorporated the EU's anti-trust provisions. In March 1997, it set up a competition authority to be responsible for enforcing the Competition Act. Since the authority started work in November 1997, it has published four communiqués on mergers and acquisitions, notifying agreements and block exemptions for exclusive distribution agreements and exclusive purchasing agreements.

On the question of state aids, the Customs Union Decision required Turkey to adapt all its aid schemes for the textile and clothing sector to the relevant Community legislation before the customs union entered into force. Turkey has complied with this obligation by notifying the Commission at the end of 1995 that there were no longer any aid schemes in the sector. Turkey was allowed a period of two years from the entry into force of the customs union to adapt sectors other than textiles and clothing. To date the Commission has not been notified of any action in this respect.

Much still remains to be done in relation to block exemptions, public undertakings, commercial monopolies and, above all, the effective implementation of competition law. The implementing rules which had to be decided by the Association Council have also not yet been adopted.

Evaluation

Turkey has made great efforts to align with Community competition law. It is vital that this work is completed. This will require a major restructuring effort, in particular as regards ensuring that commercial monopolies comply with the Community legislation. The regular discussions between the Commission and the Turkish authorities on adjusting the TEKEL tobacco, alcohol and salt monopoly have demonstrated the difficulty of the task. The question of state aids merits immediate attention.

Intellectual, industrial and commercial property

Current situation

In accordance with the Customs Union Decision, Turkey has aligned its legislation on a substantial part of the Community acquis in this area (legislation on copyright and related rights, patents, trade marks, designs and models, geographical indications, etc.). It has acceded to a number of multilateral conventions (Paris Act, Berne Convention, etc.) and set up new structures to deal with the implementation of the relevant legislation. The level of protection of the Turkish market has thus improved. Turkey still has to adopt a number of measures before 1 January 1999 under the Customs Union Agreement: patentability of pharmaceutical products and processes, accession to other conventions, implementation of all the TRIPs agreement provisions, adoption of various Community directives, etc.

Evaluation

In view of the considerable amount of harmonisation already achieved, Turkey should have no problem in completing alignment with the Community's legislation. The issue of the effective implementation of the legislation merits special attention.

Commercial policy

Current situation

When the customs union entered into force, Turkey adopted commercial policy provisions and implementing measures similar in substance to the Community's commercial policy legislation (common import arrangements, administration of quotas, etc.). The Community textile policy (including the textile agreements), in particular, was extended to Turkey on the same occasion. Turkey has been applying the Common Customs Tariff to third countries since 31 December 1995 as well as arrangements on suspensions, the reintroduction of duties, quotas and ceilings similar to those of the Community. The only remaining differences are with regard to the level of tariff suspensions. The implementation of the commercial policy instruments (in particular antidumping measures) remains a matter of the competence of each of the parties to the customs union.

Pursuant to the Customs Union Decision, both Turkey and the Community have devised procedures for cooperation designed to prevent circumvention of the arrangement with Japan on trade in motor vehicles. Cooperation in this area has worked satisfactorily.

Turkey has a period of five years from the entry into force of the customs union to align its preferential trade policy on the Community's preferential arrangements. Turkey has already concluded preferential agreements with Israel and almost all the ten countries of Central and Eastern Europe. It is currently negotiating with the European Union's preferential partners in the Mediterranean area.

Evaluation

Turkey has demonstrated its ability to apply the Community commercial policy in full. Completing the alignment of its preferential policy on the Community policy should not pose any problems. However, Turkey should refrain from negotiating preferential agreements with countries which have no agreement linking them to the Community in accordance with the Customs Union Decision.

Customs

Current situation

Since the implementation of the customs union, Turkey has applied customs rules similar in substance to those contained in the Community Customs Code except in the case of the suspensive arrangements and economic customs procedures. It uses the Single Administrative Document and the Combined Nomenclature. The new Turkish customs code has still to be officially adopted by Parliament. Turkey takes part in various international forums in the customs field including the World Customs Organisation. Pursuant to Article 60 of the Customs Union Decision, Turkish experts also take part in the meetings of the Customs Code Committee which assists the Commission in the exercise of its executive powers.

Although free zones are not specifically mentioned in the Customs Union Decision, there is a discrepancy between the way they operate in Turkey and in the Community. This could result in certain problems in particular as regards checks on textile processing operations.

Evaluation

Turkey has made serious efforts to apply legislation in line with Community legislation in the customs field. However, it must actively pursue the modernisation of its customs administration, especially as regards computerisation.

Conclusion

Practically three years after the entry into force of the customs union, Turkey has demonstrated its ability to implement most of the legislation required by the Customs Union Decision. By virtue of the considerable endeavours of its administration and Parliament, Turkey has managed to comply with most of the obligations ensuing from the Customs Union Decision within the time limit specified. In those sectors where the deadline has not been respected, Turkey will have to show proof of the same political will.

3.2 Sectors of the acquis covered by the European strategy

The European strategy puts forward operational proposals in a number of sectors of the acquis. This strategy was welcomed by the Cardiff European Council which invited the Commission to apply it and put forward any proposals required for its effective implementation.

Internal market

Free movement of capital

Current situation

Various obligations were set out in Articles 50, 51 and 52 of the Ankara Agreement and the Additional Protocol with regard to movements of capital between the two parties. Although there has been no special monitoring of these rules under the Association, Turkey has gradually introduced relatively liberal arrangements, but less so than the Community's, to govern capital movements. Restrictions are still in place on certain transactions (notably on certain types of

foreign direct investment and real estate investments by non-residents, the admission of certain securities to capital markets, etc.) which would have to be lifted in order to ensure the free movement of capital between the Community and Turkey.

At the current stage it is too early to form any conclusions on Turkey's ability to apply the *acquis* as set out in Articles 73b *et seq* of the EC Treaty.

Strategy proposals

In its communication the Commission proposed setting up a mechanism for dialogue on greater liberalisation of movements of capital between the Community and Turkey. Turkey has now agreed to that proposal and the technical work should therefore begin as soon as possible. Since the alignment of the Turkish legislation on the *acquis* in this field depends on the overall macroeconomic framework too, the European strategy also proposed the resumption of the macro-economic dialogue.

Free movement of services

Current situation

A substantial part of the Community legislation applicable to the free movement of services relates to financial services. Issues relating to the opening up of national markets in sectors traditionally dominated by monopolies, e.g. telecommunications and, to a certain extent, energy and transport, are also concerned here.

The Turkish **banking sector** follows the universal banking model. Significant efforts have been made to align the banking legislative framework on Community standards. Provisions on solvency ratios, annual and consolidated accounts, capital adequacy, consolidated supervision and money laundering are in line with the equivalent Community measures. Some others need further alignment (1st and 2nd coordination Directives, large exposures deposit guarantee). It can be assumed that in the near future the main legislative framework will be in place.

The Turkish legislative framework on **payment systems** does not contain specific provisions which reflect those of Community Directives on cross-border credit transfers and on settlement finality in payment and securities settlement systems. However, a real time gross settlement (RTGS) system, owned and operated by the Central Bank of Turkey, is in place since 1992. Taking into account the existing RTGS system, its further improvement, and developments in electronic payments, the payment system in Turkey can be considered as well advanced.

In the **insurance** sector, many of the major principles of Community legislation are found in Turkish legislation. A supervisory authority has been established. Authorisation is needed before business can be set up. Provisions on proper test of management and shareholders are equivalent to the rules in the Community. Further approximation is however necessary to fully align with the European legislation.

The process of adapting the Turkish legislative framework for **securities markets** to the Community standards began as early as 1981 with the adoption of the Capital Market Act. The relative youth of regulated securities markets in Turkey (the Istanbul Stock Exchange, which is the only stock exchange, began operating in 1985) has meant that securities market legislation in Turkey has been inspired from the very beginning by the relevant Community provisions. The

Capital Market Act also provided for the establishment of the Capital Markets Board, an independent institution charged with regulating and monitoring Turkey's securities markets.

The fundamental principles laid down in Community Directives concerning public offers and listing of prospectuses of transferable securities, insider dealing, acquisition and disposition of major share holdings, collective investment schemes and investment firms are, accordingly, already enshrined in the Turkish securities market legislation.

However, some fine-tuning is required in order for Turkey to be in full compliance with the Community standards. This applies to the directives on the acquisition and disposition of major share holdings, collective investment schemes (UCITS) and the directive on investment services which has not yet been fully transposed into Turkish legislation. One example of non-compliance is that Turkish banks can only conduct securities business through specialised subsidiaries, whereas the investment service directive applies to both non-bank and bank investment services, implying that banks should have direct access to regulated markets. A final area concerns investor protection. The Turkish legislation needs to provide for investor guarantee schemes in compliance with the directive on investor compensation schemes.

Turkey's legal framework in the financial services sector corresponds to a large extent to the Community acquis. Further approximation is however still needed to fully align with the Directives in this field but a good base to build on has been established.

Strategy proposals

The lifting of restrictions on the freedom to provide services and the freedom of establishment is an important aim laid down in the Ankara Agreement (Articles 13 and 14). The 1973 Additional Protocol introduced a standstill clause (Article 41(1)) and entrusted the Association Council with the task of deciding the timetable and rules for achieving this end. No initiative has been taken to that effect.

The Commission therefore proposed in the European strategy opening negotiations with Turkey on the conclusion of a preferential agreement on the liberalisation of services, in accordance with GATS Article V. Turkey has agreed to this proposal and exploratory contacts began in April.

Public procurement

Current situation

Provision was included in the Customs Union Decision on starting negotiations with a view to the mutual opening of government procurement markets in the Community and Turkey. To date no initiative has been taken to that effect. Turkey has yet to begin negotiations on accession to the WTO Agreement on Public Procurement, an undertaking included in a declaration in the Annex to the Customs Union Decision. We do not have sufficient information at our disposal to enable us to assess the degree of approximation of Turkish legislation with Community law in this sector.

Strategy proposals

Under these circumstances, the Commission put forward the proposal in the European strategy of starting exploratory talks with a view to an Agreement on Public Procurement. Both parties are currently weighing the respective merits of a bilateral agreement between them, Turkish accession to the WTO Agreement on Public Procurement and the alignment of Turkish legislation on Community law.

Industrial and SME policy

Current situation

Turkey's industrial policy has been transformed by the entry into force of the customs union. The Turkish market has been opened to competition by the adoption of the common external tariff on most industrial imports and by the removal of tariffs on goods from the Community. In 1994, a privatisation programme was put in place. Since 1997 privatisation has gained momentum. So far, the most important privatisation has involved the banking and oil sectors. Privatisation of dominant companies owned by the state in areas such as air transport and basic telecommunications has begun. A number of sectors, such as the steel sector, also need to undergo major restructuring. Attention should also be paid to ensuring that tender rules are strictly enforced.

A positive effect which will stem from the full implementation of the customs union is the alignment of Turkish technical legislation with the Community acquis to be finalised by 2001. This will prompt Turkish companies to become particularly active in the field of quality management.

In more general terms, Turkey needs to be seen as pursuing policies aimed at open and competitive markets along the lines set out in Article 130 (industry) of the Treaty.

Small and medium-sized enterprises in Turkey account for 95% of the manufacturing sector, 61% of employment in that sector and 50% of total employment. The problems experienced by SMEs are mainly due to outmoded production methods in certain sectors and regions. SMEs also suffer from problems as regards access to technology and qualified workers, access to credit and a lack of understanding of foreign markets.

The Business Cooperation Centre (BCC), Business Cooperation Network (BC-Net) and Euro-Info Correspondence Centre networks operate in Turkey. Turkish SMEs also take part in initiatives such as Europartenariat, Medpartenariat and Medenterprise.

Strategy proposals

Cooperation between the Community and Turkey in the fields of industrial cooperation, investment, industrial standardisation and conformity assessment, as proposed in the European strategy, will contribute to the strengthening of Turkish industrial competitiveness, notably to the benefit of SMEs. Turkey may also apply to take part in the third multiannual programme for SMEs.

Agriculture

Current situation

Out of Turkey's total agricultural area of 50 million hectares (crops and livestock), more than half is classified as usable agricultural area. 4.5 million hectares of the usable area is irrigated (1997 figures); the area will be increased (by about 1.7 million hectares) as a result of the GAP irrigation programme (project for south-east Anatolia), which is due for completion in 2015. Agriculture accounts for 14% of GDP (1996) and employs 42% of the active population.

With 4.5 million agricultural holdings, the structure of land ownership in Turkey is fragmented. The total value of agricultural production in 1995 corresponded to about 11% of EU production. Crop production accounts for three-quarters of all agricultural production and livestock for the remaining quarter. Cereals are Turkey's main crop, followed by fruit, vegetables, cotton and tobacco.

Turkey is the world's leading producer and exporter of nuts (notably hazelnuts). Dried fruits (figs and raisins), fruit and vegetables are also major exports.

The European Community is Turkey's principal market for agricultural products. The balance of trade in agricultural produce with the Community is in Turkey's favour: Turkey's total exports amount to more than ECU 1.5 billion while Community exports to Turkey total ECU 500 million (1995-97 average). The main exports to the Community are hazelnuts (which account for 23% of the value of total agricultural exports), dried fruits, tobacco and citrus fruit. Turkey's main imports from the Community include sugar, live cattle, food preparations, wheat and oils.

The agri-food sector is currently being privatised. There are many private industries and the dairy and livestock feed industries and some abattoirs have already been privatised. The state still plays an important part in certain key sectors, e.g. tobacco, sugar, tea, cereals and meat.

Turkey's agricultural policy is heavily interventionist, relying on massive domestic support in the form of intervention pricing, subsidised inputs, investment credit, special payments and production premiums and high levels of export aid. So far, attempts to scale down government intervention have been unsuccessful.

Currently we are again seeing a massive surge in reliance on intervention buying to support prices. Intervention prices have been sharply raised, reflected in a huge increase in budget spending and the price of food to the consumer. Subsidies on crop and livestock farming inputs including capital goods, irrigation equipment, fertiliser, seed, pesticides and fodder showed a tenfold increase in 1997 over 1994. Exports of onions, tomatoes, potatoes, apples and citrus fruits are subsidised. Turkey has given undertakings in the WTO to scale down the number and value of export refunds.

There is a high level of tariff protection (though rates are lower than the duties bound in the WTO). Turkey and the Community have reciprocal concessions on certain products (see above).

In spite of recent efforts, quality and health controls remain inadequate. The level of the controls is poor and there are too few laboratories.

Strategy proposals

In both the Ankara Agreement and the Customs Union Decision the Community and Turkey committed themselves to achieving the free movement of agricultural products. This required Turkey to align its agricultural policy on the CAP. There is little sign of progress towards this goal.

As part of its European strategy for Turkey the Commission has proposed a programme along the lines of the approach followed for the CEECs to help Turkey bring its farm policy into line with the CAP. This is due to get under way in December.

Telecommunications and information society

Current situation

The telecommunications sector in Turkey has made considerable strides in the last few years, particularly in terms of mobile telephony. Progress with fixed telephony and advanced communication networks appears slower, partly reflecting legal uncertainty about the ending of Türk Telekom's monopoly. This was originally scheduled to take place on 31 December 2005 but in the government's annual programme for 1998 the date has been brought forward to 2001.

Given that the monopoly is still in place there has been no significant progress in the alignment of Turkey's law on that of the Community.

The slowness of the liberalisation process has also prevented the creation of the infrastructure needed to establish an information society in Turkey. The level of computerisation is still well below that in the European Union.

Strategy proposals

To achieve successful privatisation of telecoms Turkey will have to introduce legislation providing ultimately for the complete liberalisation of the sector and the requisite organisational framework (a regulatory authority and rules governing connections and licensing etc.). The European strategy contains proposals for appropriate cooperation measures.

However, technical talks are due to take place in the next few weeks and if these are to succeed Turkey needs to put forward a policy paper outlining its plans for adoption of the *acquis*. Talks are also planned on the development of Turkey's strategy for the introduction of the information society and extension of the Trans-European Networks to Turkey.

Scientific and technical research

Current situation

Turkey spends 0.34% of its GDP on research (1996 figures). Policy is laid down every five years by the State Planning Organisation, which reports to the Prime Minister. The priorities for the seventh five-year plan (1996-2000) are information technology, biotechnology, space research, materials, and industrial and generic technology. Most research is carried out in universities and public-sector institutes; there is little private-sector activity.

The main problems of the research sector in Turkey seem to derive from a lack of money and staff. Industry is also making too little use of technology transferred from abroad.

Strategy proposals

Cooperation with the Community in this field is long-established; Turkey has been a member of COST (European Cooperation on Scientific and Technical Research) since 1975 and has taken part in various Eureka (European Research Coordination Agency) activities and Community framework programmes since 1985. The European strategy proposal is to enhance such cooperation under the 5th framework programme pending Turkey's full-scale involvement in the programme.

Environment

Current situation

Although some progress has been made in the last fifteen years in the adoption of legislation, conservation schemes and institutional machinery, the standard of environmental protection in Turkey leaves a great deal to be desired. The worst problems are industrial and urban pollution and sustainable management of the coastline and natural resources.

The law in Turkey is very different from that in the Community, particularly in terms of standards, monitoring requirements and methods of measurement. Shortcomings are particularly notable in the areas of industrial pollution, dangerous substances, genetically modified organisms, nuclear safety and access to information about the environment. Nevertheless, efforts have been made to take over the *acquis* as it applies to waste, air and water protection, nature conservation and environmental impact assessments. The National Environmental Action Plan adopted in May sets out a number of important priorities but devotes little attention to adoption of the *acquis communautaire*. In any case, complete adoption of the *acquis* is still only a long-term prospect and will entail large-scale investment for which detailed estimates are currently lacking.

Implementation of the law leaves much to be desired. National and local structures need extensive modernisation in terms of organisation, equipment and qualified staff, and there needs to be a clearer division of responsibilities between different bodies.

Strategy proposals

In the European strategy the Commission puts forward a set of cooperation measures designed to bring environmental protection in Turkey to a level closer to that prevailing in the European Union. There is also considerable emphasis on the approximation of laws. However, to ensure that the administrative and financial cooperation measures are as effective as possible it has been agreed that Turkey should draw up a national plan for its adoption of the *acquis*.

Transport

Current situation

Though Turkey is pursuing a policy of gradual alignment on the European Union's regulatory system in the transport sector it is a long way from applying the *acquis*, particularly on shipping. The situation as regards infrastructure is fairly satisfactory.

In the framework of the development of a Pan-European Transport network, Turkey is situated on two Pan-European Transport Corridors and in two of the Pan-European Transport Areas (Black Sea Area and the Mediterranean Area). Work on these Corridors and Areas either began only recently or will soon get under way.

In the aviation field, in the same way as with the other countries in the region, the Commission has proposed explanatory talks on air transport with Turkey as a preparation for future negotiations on possible air transport agreement. Until now, however, talks have not been initiated

The Turkish road network is well developed and links with most neighbouring countries, particularly to the west, are in relatively good condition. The rail network is also being improved. In maritime transport, the main concerns relate to the treatment in Turkish ports of vessels travelling from ports in Cyprus, and to maritime safety. In the field of maritime safety, the situation gives rise to certain concerns. For instance, out of 100 Turkish ships visiting countries which are members of the Paris Memorandum of Understanding on Port State Control (MOU) between 1995-1997, 48 have been detained. Although Turkey has ratified some international conventions (MARPOL and SOLAS, and the plans for accession to their amending protocols, for instance), the situation regarding other relevant international conventions requires further clarification.

Strategy proposals

The Commission's European strategy for Turkey sets forth a number of guidelines for future cooperation in this sector, including participation in the development of Pan-European Networks, cooperation in maritime transport, negotiation of an aviation agreement and cooperation on satellite navigation and positioning. Turkey has also put forward its suggestions. The first issues to be discussed in the sectoral talks will concern the safety in maritime transport.

Energy

Current situation

In 1995 total demand for primary energy resources amounted to 63 Mtoe, 42 % of which was met by domestic energy production. Lignite is the main indigenous resource. Construction of nuclear plants is being considered to overcome bottlenecks and to promote diversification of energy sources.

Existing energy efficiency measures include energy audits in industrial plants. Further measures need to be taken in order to be in line with the *acquis*.

Turkey is member of the International Energy Agency (IEA) and has signed the Energy Charter Treaty (ECT). Turkey holds around 90 days of oil imports which is approximately in line with Community regulations.

At present, the energy sector mainly involves state-owned companies. The Turkish government has developed a privatisation programme for the energy sector which foresees the privatisation of various subsectors: coal, oil, electricity and gas.

In order to meet the substantial increase expected in energy consumption, Turkey needs to open its energy sector and thus to attract foreign investments. Build operate and transfer (BOT) schemes are planned as the foreign financing procedure. BOT calls for tenders will introduce greater competition in the Turkish market.

This reform program grants a major priority to the creation of a framework consistent with the privatisation goals and the introduction of competition. Beside this, efforts will still be needed in order to be compatible with the Community internal energy market. Other policy elements such as energy efficiency, promotion of renewable energies, should also benefit from priority status.

To cope with the country's growing energy requirements the Turkish authorities have approved plans for a nuclear power station at Akkuyu. This decision means it will be necessary to evaluate the possible implications of the existence of an earthquake zone not far from the chosen site.

Strategy proposals

The European strategy gives high priority to the approximation of laws in this sector. No specific measures to achieve this objective have yet been worked out. The first step is to draw up a detailed inventory of the existing legislation in this sector.

Consumer protection

Current situation

The adoption of outline consumer protection legislation in 1995 was a significant step towards alignment on EU law. However, directives concerning misleading advertising, comparative advertising, consumer credit, doorstep sales and price indication are partially implemented. There is no legislation yet which directly implements the directives on general product safety, dangerous imitations, distance selling and timeshares.

Further harmonisation is not expected to pose any particular problems.

Strategy proposals

The European strategy proposes three courses of action to improve consumer protection in Turkey and increase the level of legislative harmonisation: support for the creation of early warning systems for industrial products and foodstuffs, a comprehensive plan for the approximation of laws and support for consumer associations.

Justice and home affairs

Current situation

EC-Turkey Association Council resolutions dated 6 March and 30 October 1995 provide for EU-Turkey cooperation on certain issues falling under the heading of justice and home affairs. They call in particular for regular meetings of the relevant Council committee and at ministerial level, as well as meetings with the Council Presidency and General Secretariat, in association with the Commission.

Political considerations meant that these arrangements remained in abeyance until this year, when the Council's adoption on 26 January of a plan to deal with a surge in illegal immigration from Iraq and other countries in the region made it possible to activate the cooperation foreseen in 1995

Immigration/border controls

As Turkey is a transit country for quite a number of illegal immigrants, mainly from Asia and northern Iraq, its refusal to conclude any readmission agreements, pleading constitutional grounds, is a serious problem. It has, however, introduced a new passport complying with the International Civil Aviation Organisation (ICAO) standards and optical scanning of passports, measures that could prove helpful in controlling immigration.

Right of asylum

Turkey maintains a geographical reservation to the 1951 Geneva convention that means it only grants refugee status to people coming from European countries, thus largely rendering the asylum machinery ineffective. The lifting of this reservation is essential for Turkey's alignment on the rules in force in the European Union. There will also have to be a drastic improvement in the procedure for scrutiny of asylum requests (current deadline for submission of applications is too short) and the treatment of asylum seekers.

Police

At the meeting between Turkey and the relevant Council committee on 25 June Turkey proposed an extension of financial cooperation via involvement with projects under the Falcone programme (fight against organised crime) and the creation of links with Europol.

Narcotics

Turkey ratified the 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances in February 1996 and appears determined to apply strict controls to imports of these products. It is not a producing country, but its strategic position makes it a major transit country, the start of the "Balkan Route" by which heroin from South-West Asia reaches Europe. The European Commission is providing financial support for drug projects in Turkey.

Judicial cooperation

On the civil side Turkey has not yet ratified the European Convention on Recognition and Enforcement of Decisions concerning Custody of Children and on Restoration of Custody of

Children. Among instruments drafted by the Hague Conference on Private International Law it has not yet ratified the Convention of 25 October 1980 on the Civil Aspects of International Child Abduction, the Convention of 18 March 1970 on the Taking of Evidence Abroad in Civil or Commercial Matters or the Convention of 25 October 1980 on International Access to Justice.

On the criminal side, Turkey has not yet acceded to two key Council of Europe instruments, the European Convention on Money Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the Agreement on Illicit Traffic by Sea, implementing article 17 of the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. Nor has it signed the first additional protocol to the European Convention on Extradition, dated 15 October 1975, or the additional protocol of 18 December 1997 to the Convention on the Transfer of Sentenced Persons.

Strategy proposals

The European strategy emphasised the need to implement the two 1995 Association Council resolutions and finance measures in the field of justice and home affairs.

The first step in this direction was the meeting between the relevant Council committee and the Turkish authorities that took place in Brussels on 25 June. Several justice and home affairs issues were discussed and areas of cooperation were explored. The Commission places particular emphasis on the need for active cooperation with Turkey on immigration.

Conclusion

Turkey has already begun the process of alignment on Community laws in most of the areas identified in the European strategy, though much remains to be done, particularly in the field of internal market (in particular public procurement), agriculture, transport and the environment. On the other hand, it should have no particular problems in the medium term in applying the *acquis* on the free movement of services. Harmonisation in the financial services sector is well advanced.

3.3 Other sectors of the *acquis*

We are dealing here with sectors not currently falling within either the Customs Union Decision or the European strategy proposals, but nonetheless important in the context of a far-reaching approximation of laws. Some of them may in due course be brought within the European Strategy framework.

Internal market

The Union's internal market is defined in Article 7a of the Treaty as an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislation but also the effective application of common rules, such as those designed for safety, environmental or consumer protection, and effective means of redress. The same

principles apply to certain common rules, for example in the area of public procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

Some internal market legislation - company law, data protection and free movement of persons - does not currently fall within either the Customs Union Decision or the European Strategy proposals.

As far as **company law** is concerned, a certain level of harmonisation has already been achieved. The main provisions and principles of Turkish legislation in this field are in line with the relevant Community Directives. Turkish rules give sufficient protection to shareholders and creditors. Other provisions such as minimum capital requirements, the kinds of business associations, the corporate organisation, registration requirements and the disclosure of information are also largely consistent with Community legislation. Complete harmonisation would not be difficult to achieve.

As far as **data protection** is concerned, Turkey is following the work of the Council of Europe in this matter but has not yet adopted any legislation in line with the *acquis*. Turkey has not ratified Convention 108 on data protection.

Despite the fact that holders of **European diplomas and professional qualifications** are being granted equivalency certificates in Turkey, access to certain professions is, according to current Turkish law, reserved for nationals. At the moment, no systematic work is being carried out in Turkey to align with the *acquis* in this area.

Neither have the two sides reached agreement on how to bring about freedom of movement for workers, as envisaged in the Association Agreement. This is a major issue which will have to be tackled in due course.

Education, training and youth

Turkey has over 12 million primary and secondary school pupils and some 500 000 teachers. There are 72 universities and a total of 1.3 million students. A law adopted in August 1997 increased the length of compulsory education from five to eight years, thereby adding significantly to the numbers at primary school.

Though Turkey has made efforts to bring the general level of education up to European Union standards, it still faces shortcomings in training provision, classes, teaching staff and personnel generally.

In its proposal to the Council the Commission envisages possible Turkish participation in the Socrates, Leonardo and Youth for Europe programmes in the years 2000-2004 in accordance with procedures to be agreed with Turkey. Such participation could not fail to help bring cultures and mentalities closer together. In addition to appropriate financing, this would require Turkey to ensure free movement of those taking part in the programmes.

Audio-visual

Turkey's legal framework for the audio-visual sector is determined by the Law on Intellectual and Artistic Works and the Law on Cinema, Video and Musical Works. A constitutional amendment in 1993 provides for pluralism in the media and terminated the state monopoly. In

addition, Turkey ratified the Convention of the Council of Europe on Trans-frontier Broadcasting in 1994.

There is a proliferation of private radio and TV channels. It is planned to privatise certain channels of the public service broadcaster, Turkish Radio and Television, under licence. The Radio and Television Supreme Board (RTUK) was set up in 1994 in order to control terrestrial broadcasting.

In accordance with the Customs Union Decision, Turkey has acceded to the Rome Convention (1961) for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations and adopted legislation aimed at preventing pirated broadcasts by protecting copyright and related rights in cross-border programme broadcasting via cable and satellite.

The audio-visual sector in Turkey is characterised by rapid and steady growth. Cable TV services, currently operated by Turkish Telecom, have not been liberalised yet, largely because of legal and institutional barriers. Nevertheless, it is planned to expand the cable TV system via revenue partnership, in order to meet increasing demand.

On the basis of information currently available, however, it is difficult to assess the extent of the harmonisation achieved by Turkey in this field, in particular as far as the «Television without frontiers» Directive (Directive 89/552/EEC as amended by Directive 97/36/EC) is concerned. Further contacts with the Turkish authorities will be necessary.

EMU

Once the third stage of EMU gets under way all Member States, including new ones, will participate in Economic and Monetary Union but they will not necessarily be expected to adopt the euro from the start. Their economic policies will be a matter of common concern and they will be involved in the coordination of economic policies. They will be required to respect the stability and growth pact and to renounce any direct central bank financing of the public sector deficit and privileged access of public authorities to financial institutions and to have completed liberalisation of capital movements. Accession means closer monetary and exchange rate cooperation with the European Union. Member States not participating in the euro area will be able to conduct an autonomous monetary policy and participate in the European System of Central Banks (ESCB) on a restricted basis. Their central banks will have to be independent and have price stability as their primary objective.

As membership of the EU implies acceptance of the goal of EMU, the convergence criteria will have to be fulfilled by any candidate, although not necessarily upon accession. They remain key points of reference for stability oriented macro-economic policies, and must in time be fulfilled by new Member States on a permanent basis.

The Central Bank of Turkey (CBT) is not independent from the government. Under the CBT Act, most policy decisions on monetary matters are taken by the government or jointly with the government.

Nor does Turkey comply with the Treaty on the issue of central bank financing of the government. No institutional provision prevents this source of financing, and monetary creation has been a source of deficit financing, albeit to a lesser extent this year.

Furthermore, the government and non-autonomous public enterprises have such complex and numerous relations with public financial institutions that it would be premature at this stage to assess which of these are inconsistent with the Treaty criterion of privileged access.

Taxation

A Value Added Tax system was introduced in Turkey in 1985, replacing the previous eight indirect taxes. Although this VAT system is based on the Community approach it does differ from the Community VAT acquis to some extent, in particular as regards exemptions, the scope of which is much broader than in the Community.

Turkey applies a standard VAT rate of 15%. In addition to the standard rate, two reduced rates of 1% and 8% respectively are applied. The reduced rate of 8% is applied to essential food products, whereas the 1% rate is applied to exportable goods. Two higher rates of 23% and 40% are applied to luxury goods. With certain exemptions, imported goods are liable to VAT at the same rate as those applied within Turkey.

Taxable persons are in principle entitled to deduct VAT incurred on their purchases of goods and services for business purposes on condition that they can substantiate the claim by means of a proper VAT invoice. In contrast to Community legislation, the Turkish VAT Act does not contain provisions allowing refunds of input VAT to foreign taxable persons not established within the country. Since Turkey does not operate a refund scheme of that nature, the VAT represents an increased cost to such foreign taxable persons.

The Turkish VAT Act also contains special schemes for farmers and small enterprises.

In addition to the VAT Act, a supplementary tax is imposed to compensate for the difference between the application of the prior production tax and the VAT rates. The tax is applied to certain products and only at the production stage and on imports, and the tax paid on inputs can only be credited against the supplementary tax charged and not against VAT.

A start has been made on applying a Community-based VAT system, but substantial efforts are still required in some essential areas in order to align it further on the Community acquis. Efforts are also required to eliminate breaches of the non-discrimination rules in the field of VAT rates and the supplementary tax for certain imports.

As far as excise duties are concerned, it appears that Turkey charges a single-stage consumption tax on a very wide range of products. Goods subject to the common Community excise duties are within the list of goods subject to the tax, but the Turkish provisions do not begin to reflect the Community acquis in the excise field. In particular, the Turkish system relies on very high rates of ad valorem duty and makes no provision for suspension of the duty within a warehousing system.

Statistics

The National Statistical Institute is the central body responsible for the production and publishing of statistics. It has an arrangement to cooperate with Eurostat, but the potential of this is not being adequately exploited.

Though the Turkish authorities are plainly keen to adopt most components of the acquis in this field (standards, classifications etc.), little progress has been made in putting them into effect.

Fisheries

Turkey has 8 333 km of coastline and a well-established fishing industry. Aggregate catches in 1996 were around 500 000 tonnes, approximately 8% of the EU total. There are 56 000 fishermen and a fleet of over 6 800 vessels.

In 1997 the Community imported 29 483 tonnes of fishery products from Turkey which represented 0.7% of total imports. In value terms these imports were worth MECU 98 or 1.04% of the total. The main species were tuna, mussels (and prepared molluscs) and anchovies. Turkey took 1.8% of Community fish exports (1.6% of the total in value terms). Exports have trebled in the past three years with frozen yellowfin tuna being the largest single item.

Weaknesses in the sector include enforcement of health standards and inefficient processing methods.

In the absence of detailed information about the organisation of the market for fishery products in Turkey, structural policy and the management and conservation of fish stocks, it is difficult to assess the country's capacity to apply the *acquis* in this sector.

Employment and social affairs

Using the ILO's methods of calculation, unemployment was running at 6.1% in 1996 and 6.4% in 1997. Given the scale of the parallel economy, these figures probably conceal a much higher jobless rate. The labour market needs to be modernised in order to meet the needs of a competitive economy.

Spending on social security accounts for only 7% of Turkey's GDP, a modest figure explained by the financial structure of the social security system, which is based on contributions from employers and workers rather than on tax revenue. Many of the organisations are in the red, obliging the state to step in - a considerable drain on the budget. The system needs a thoroughgoing structural reform. Most health indicators are considered unsatisfactory given the country's level of socio-economic development, and its health service therefore needs to be significantly improved..

Turkey has a number of employees' and workers' organisations, the broadest-based being Türk-Is, a member of the European Trade Union Confederation (ETUC). The main employers' body is the TISK, likewise a member of UNICE, the Union of Industrial and Employers' Confederations of Europe. The Economic and Social Council established by the Government in 1995 started operating in March 1997 although there is no social dialogue within the framework of public sector confederations because of legal restrictions (no system of collective bargaining and agreement).

On the strength of the available information it is hard to assess the degree of alignment of Turkey's health, social security, labour and equal opportunities legislation on the *acquis communautaire*.

The Turkish authorities have more than once expressed interest in discussing various social issues with the Community. In due course these matters could be dealt with in the context of the European Strategy .

Regional policy and cohesion

Regional demographic, socio-economic and infrastructure disparities in Turkey reflect a split between the officially designated "disadvantaged" regions, East Central and South East, and the rest of the country. The 49 "disadvantaged" provinces are experiencing a large-scale exodus from the countryside, rapid growth in the urban population and significant net migration to the west of the country or abroad. The result of these three trends is that annual population growth in the east of Turkey is well below the national average - 0.7% as against 1.5%. Per capita GDP in the disadvantaged areas was only 61% of the national average in 1986. More up-to-date figures based on regional household consumption in 1994 suggest a similar gap. Infrastructure in the disadvantaged regions also continues to lag despite major projects carried out between 1985 and 1990.

Helping its disadvantaged regions to catch up has always been one of Turkey's objectives. In 1960 it set up a State Planning Organisation for this purpose, and in 1970 created a special department for the underdeveloped regions. Aid is available e.g. for administrative decentralisation and business investment, and the GAP South-East project currently under way, involving construction of eight dams, is expected not only to double Turkey's energy production but to help eight of the most backward south-eastern provinces by substantially increasing irrigated crop production and underpinning the modernisation of their infrastructure. However, the project enables Turkey to control the flow of the Tigris and Euphrates to Syria and Iraq and is a source of tension with those countries. The environmental impact of the project is controversial too. Lacking sufficient information from the Turkish authorities about the GAP project, we cannot accurately gauge the socio-economic impact on the region.

Turkey's development lags well behind the Community average, and it is therefore essential for both sides that it implement an effective structural policy. It does have an administrative structure in charge of regional development policy, but the lack of information from the Turkish authorities at this stage means we cannot assess its performance or the compatibility of its instruments with Community policies.

Conclusion

Turkey still has important efforts to make in these sectors. Effective alignment in internal market-related areas will depend in particular on progress with company law. Free movement of persons is a sensitive issue which also has to be dealt with in the framework of the obligations under the Ankara Agreement. In any case if we decide to handle certain issues as part of the European strategy we will need to know more about the level of alignment and existing national policies. In this connection, we should be thinking about extending the European strategy to embrace issues such as education, taxation and audio-visual policy.

4. Common foreign and security policy

Turkey has had an association with the Community since 1964 and for decades its policy has been firmly aimed at European integration. It has been a member of NATO since 1952.

Regular meetings of the EC-Turkey Association Council since the sixties have been the forum for discussions between the two sides on the major foreign policy issues of common interest, and it is clear that opinions converge on many of these issues.

At the Luxembourg European Council Turkey was invited to take part in a European Conference to step up foreign and security policy cooperation between the European Union and applicant countries. For the time being, unfortunately, Turkey declines to participate.

An Association Council resolution of 30 October 1995 laid down arrangements for EU-Turkey political dialogue, including twice-yearly meetings of senior officials (including political directors) at Troika level; the Council Presidency or General Secretariat also keeps Turkey informed of the outcome of European Council meetings. The resolution also provides for European Union-Turkey expert-level consultations in certain CFSP working parties. Turkey has made active use of this machinery, and since 1995 there have been frequent meetings of senior officials at Troika level, and at expert level on various Council working parties (OSCE, Eastern Europe and Central Asia, security etc.). At the Turkish authorities' request, the Council's Political Committee agreed on 16 April this year to hold ad hoc expert-level political dialogue meetings with Turkey on the Western Balkans and UN working parties.

The same resolution provided for annual meetings between Turkey's head of state or government, the President of the Council and the President of the Commission, and for two yearly meetings of foreign ministers.

So far, Turkey has not asked to be associated with European Union common positions, joint actions or common démarches or declarations. This is somewhat problematic in that it sets Turkey apart from the Central and East European countries, for which similar political dialogue machinery exists and which do regularly associate themselves with European Union common positions.

Turkey plays a leading role in the Euro-Mediterranean Partnership and takes part in the full range of activities. .

Turkish troops were involved in IFOR/SFOR and the Multinational Protection Force in Albania.

Turkey is a member of the United Nations, the Council of Europe and numerous other international organisations, and an associate member of the Western European Union. It is also involved in various regional bodies including the Black Sea Cooperation Council and the Economic Cooperation Organisation, along with Pakistan, Iran and the Central Asian republics.

Turkey has a special relationship with the Turkic-language republics in Central Asia, where it has considerable political and economic influence.

There are a number of contentious issues in the Aegean area between Turkey and an EU Member State, Greece, including disputes about the demarcation of the continental shelf. Turkey also challenges sovereignty over various islets and rocks. The boundaries of the two sides' territorial waters and airspace are also problematic. Turkey is not involved in any other territorial disputes with neighbouring countries. Until recently there was a boundary problem with Bulgaria but this was settled bilaterally in 1997. There are recurrent strains in relations with Syria and Iraq, particularly over water rights and the Kurdish question. It should be noted that on 20 October 1998 Turkey and Syria signed an agreement on security issues committing Syria to ending all support for the PKK.

Turkey's stance on the Cyprus question (see point 1.3) is at odds both with UN resolutions and with the European Union 's frequently reiterated position.

Turkey has a substantial diplomatic corps - 700 diplomatic staff and 165 missions abroad - which would enable it to play a full and effective role in the Union.

It backs non-proliferation of nuclear, biological and chemical weapons and has signed all the major international arms control agreements.

Apart from the Cyprus question and the disputes with a Member State and the situation in south-eastern Turkey, Turkey and the European Union therefore share similar views on quite a number of foreign policy issues. Unlike the Central and East European countries, however, Turkey has not wished to associate itself with the European Union 's various CFSP initiatives, though this would be a clearer indication of its desire to be included in the pre-accession process.

C. CONCLUSION

The Commission's evaluation as set out in this report is based on the conclusions of the Luxembourg European Council and Article 28 of the Ankara Agreement. As a result, this evaluation has been carried out on the basis of the criteria set out by the Copenhagen European Council. It also takes account of the European strategy which the Commission was asked by that Council to draw up in order to prepare Turkey for accession.

On the political side, the evaluation highlights certain anomalies in the functioning of the public authorities, persistent human rights violations and major shortcomings in the treatment of minorities. The lack of civilian control of the army gives cause for concern. This is reflected by the major role played by the army in political life through the National Security Council. A civil, non-military solution must be found to the situation in south-eastern Turkey, particularly since many of the violations of civil and political rights observed in the country are connected in one way or another with this issue. The Commission acknowledges the Turkish government's commitment to combat human rights violations in the country but this has not so far had any significant effect in practice. The process of democratic reform on which Turkey embarked in 1995 must continue.

In addition to resolving these problems, Turkey must make a constructive contribution to the settlement of all disputes with various neighbouring countries by peaceful means in accordance with international law.

On the economic side, Turkey has most of the hallmarks of a market economy, possessing a well-developed institutional and legislative framework, a dynamic private sector and liberal trade rules. The economy has considerable potential for growth and has shown great adaptability, particularly in the context of the customs union, which has contributed significantly to its modernisation. These factors should in theory enable Turkey in the medium term to acquire a viable market economy able to withstand the pressure of competition. However, if it is to be able to run its economy efficiently and make the most of its advantages, it must establish a credible, durable framework of macro-economic stability and a climate in which the financial sector can genuinely act as an intermediary. The authorities now appear to be heading in the right direction, and provided they can continue with this strategy the viability of Turkey's market economy should improve. In this context the wide regional development disparities are a salient factor; closing the gap should be high on the government's list of priorities. The European Union will do its best to help the backward regions, inter alia by deploying the resources of the European strategy.

Turkey has shown its ability to adopt and implement the bulk of the legislation stipulated in the Customs Union Decision by the deadlines. It must now show a similar determination in those sectors where the obligations have not been met on time. It has already begun the process of alignment on Community laws in most of the areas identified in the European strategy, though much remains to be done, particularly in the field of the internal market (including public contracts), agriculture and the environment. In sectors coming under neither the customs union nor the European strategy, Turkey still has a long way to go regarding the adoption of the *acquis*.

While Turkey has undeniably shown that it has the administrative and legal capacity to apply the acquis in the context of the customs union , it is not possible at this stage to offer an opinion on its future capacity regarding other areas of the acquis which have not yet been transposed.

STATISTICAL DATA

TURKEY

	1993	1994	1995	1996	1997
Basic data	in 1000				
Population (mid year)	59 258 800	60 159 900	61 074 700	62 003 400	62 981 000
	in km2				
Total Area	774 815	774 815	774 815	774 815	774 815
National Accounts	In billions Turkish Lira				
Gross Domestic Product at current prices	1 981 867	3 868 429	7 462 466	14 772 110	28 835 883
Structure of Production	in % of Total Gross Value Added				
- Agriculture	14.8	14.8	15.0	15.9	13.6
- Industry	23.8	25.7	25.8	24.2	24.2
- Construction	7.2	6.6	5.4	5.6	5.8
- Services	54.2	52.9	53.8	54.3	56.4
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	78.9	78.4	79.5	81.2	80.6
- household and NPISH	66.4	67.2	68.9	69.3	68.3
- general government	12.5	11.2	11.4	11.9	12.3
- Gross fixed capital formation	26.5	20.7	24.9	25.2	25.2
- Exports of goods and services	13.1	20.5	19.5	22.2	24.7
- Imports of goods and services	18.5	19.6	23.9	28.6	30.5
	% change over the previous year				
Gross Domestic Product (in real terms)	8.0	5.5	7.2	7.0	7.2
	in Purchasing Power parities				
Gross Domestic Product per capita	5 562	5 276	5 682	6 114	6 712
Inflation rate	% change over the previous year				
Consumer Price Index	66.1	106.3	93.6	80.4	85.7
Balance of payments (1)	in billions Turkish Lira				
-Exports of goods (fob) (2)	171 181	545 627	1 003 782	2 629 669	4 935 076
-Imports of goods (fob) (3)	326 452	670 715	1 607 284	3 487 314	7 274 137
-Trade balance	- 155 270	- 125 088	- 603 502	- 857 646	- 2 339 061
-Services and incomes, net (4)	43 412	111 410	291 291	299 714	1 187 225
-Net current transfers	33 280	80 375	156 448	315 437	668 439
Of which government transfers	8 038	11 364	48 922	44 981	47 489
-Current account balance	- 70541	- 78 061	- 106 842	- 197 513	-415 907
-Reserve assets (incl. gold)	194 757	489 966	1 065 082	2 023 433	4 104 321
-Reserve assets (excl. gold)	178 440	448 132	1 001 909	1 911 344	3 934 328

	previous year = 100				
Terms of trade	103.7	90.7	96.4	101.7	104.4
	as % of total				
Imports with EU-15	47.1	46.9	47.2	54.2	54.0
Exports with EU-15	49.5	47.7	51.2	45.4	44.4
Public Finance	in % of Gross Domestic Product				
General Government Deficit (5a)	- 6.8	- 3.8	- 4.1	- 8.2	- 7.6
Gross foreign debt (5b)	27.0	32.8	35.6	39.7	44.8
Financial indicators					
Monetary Aggregates	in billions Turkish Lira				
- M1	116 366	214 193	376 288	769 707	1 255 444
- M2	268 063	604 136	1 216 321	2 882 110	5 060 017
- Total credit	280 296	526 355	1 223 577	2 856 730	8 573 220
Interest rates	% per annum				
- Lending rate (6)	70.0	135.0	150.0	150.0	126.0
...- Deposit rate (7)	74.8	95.6	92.3	93.6	96.6
ECU exchange rates	1ECU=...Turkish Lira				
- Average of period (8)	12 817	35 475	61 511	101 808	170 573
- End of period (9)	16 190	46 936	78 334	132 840	225 970
Demography	per 1000 of population				
Natural growth rate	16.6	16.2	15.8	15.5	15.1
	per 1000 live-births				
Infant mortality rate	49.3	46.8	44.4	42.2	39.5
	at birth				
Life expectancy : Males	65.1	66.4	65.7	65.8	66.2
Females	67.4	67.7	67.9	68.2	68.4
Labour market	in % of labour force				
Economic Activity rate (ILO methodology)	53.7	53.9	53.8	53.2	50.8
Unemployment rate (ILO methodology) : Total	7.7	8.1	6.9	6.1	6.4
< 25 years	15.6	15.7	14.7	12.9	14.4
> 25 years	5.0	5.4	4.4	3.9	3.9
Average employment by NACE branches (LFS)	in % of total				
- Agriculture and Forestry	44.5	44.8	46.8	44.9	41.9
- Industry	15.8	18.4	15.3	15.9	17.2
- Construction	6.2	5.8	5.8	6.0	6.2

- Services	33.5	33.0	32.2	33.1	34.7
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Infrastructure	in Km				
Railway network	8 430	8 452	8 549	8 607	8 607
	in km				
Length of motorways	1 070	1 167	1 246	1 405	1 528
	previous year = 100				
Industry and Agriculture					
Industrial production volume indices ⁽⁷⁾	108.2	101.5	114.3	122.9	137.1

Notes

- (1) Original data is in US dollars. In order to obtain TL figures, data is converted via annual averages of US dollar buying rates.
- (2) Including shuttle and transit trade
- (3) Including imports of non monetary gold and transit trade 1992/93
- (4) Sums of services and income
- (5a) does not correspond to the Public Sector Borrowing Requirement which also includes extrabudgetary funds and quasi-fiscal operations
- (5b) Gross foreign debt (in US \$) / GDP (in US \$ converted via exports weighted effective exchange rate)*100
- (6) Lending rate applied to medium term management credits by Turkish Development Bank- end of period
- (7) One year time deposits rate-end of period
- (8) (9) Average of buying and selling rates