3 Trade and Foreign Exchange Regime in Turkey

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It is an established result of international trade economists that an open trade regime increases the competitiveness of the country by leading to an optimum allocation of resources in production and consumption, by reorienting resources to areas of comparative advantage, and by minimizing the incentive for engaging in income-generating, but unproductive activities associated with protection, such as smuggling, lobbying, tariff evasion, and the like. Furthermore, with the increase in market size and elimination of trade barriers, an open trade regime will lower prices by increasing competition and spurring efficiencies via better exploitation of scale economies. A larger variety of products is offered. Thus openness removes the distortions in the price system, which in turn boosts the allocative efficiency in the economy. As a side effect, this heightened efficiency makes the country a better place to invest. Investment and hence foreign direct investment increases. Thus allocative efficiency gains from openness will be boosted by induced capital formation, which in turn increases the competitiveness of the country.

The purpose of this chapter is to study the trade and foreign exchange regime in Turkey as it took shape in 2000. Section 1 describes the main developments in the trade and foreign exchange regime of Turkey, and Section 2 the market access issues for industrial commodities. Section 3 considers the market access issues for agricultural commodities. Non-tariff barriers are studied in Section 4; Section 5 considers the market access issues for services; Measures affecting exports are analyzed in Section 6 and the foreign exchange regime in Section 7.

1. Main Developments

During the 1960s and 1970s, all imports into Turkey were regulated by annual import programs. Each program was published in the *Official Gazette*. The import program itemized commodities under the liberalization list, the quota list, and a list enumerating the commodities to be imported under bilateral trade arrangements. Importation of goods not enumerated in any of the lists was prohibited. The liberalization list was further divided into a free import list (Liberalization List I) and a restricted list (Liberalization List II). Commodities on the free import list consisted of raw materials and spare parts. Commodities on the restricted list were mainly processed and semi-processed goods and raw materials. The quota list covered commodities of which there were some domestic production or which were considered not essential by plan objectives, such as consumer goods. As soon as domestic production of an import competing product began, the import was transferred from the liberalized list to the quota list. When domestic production of a commodity was sufficient to meet the domestic demand, the item was removed from the quota list. Since commodities not specified on the import lists could not be imported, complete protection was then granted to local producers.

This import regime remained in force until the 1980s. In 1981 the quota list was partly phased out. In that year a large number of commodities were transferred from "Liberalization List II" to "Liberalization List I." A major reform was introduced in January 1984, when all imports were classified into three lists: the "prohibited list," "imports subject to permission," and "liberalized list." Commodities that could not be imported under any circumstances such as arms and ammunitions were specified in the prohibited list. "Imports subject to permission" specified the items that could be imported with prior official permission, and the "liberalized list" enumerated the commodities that could be freely imported. Liberalization of foreign trade intensified during the period 1988–89 when the nominal protection rates (NPR) were reduced substantially.

Turkey signed the agreement establishing the World Trade Organization (WTO) in 1994 and joined the European Customs Union (CU) starting January 1, 1996. According to the Customs Union Decision (CUD) all industrial goods except the "European Coal and Steel Community" (ECSC) products circulate freely between Turkey and the European Union (EU) as of January 1, 1996. In the case of ECSC products Turkey signed a "Free Trade Agreement" (FTA) with the EU in July 1996 as a result of which ECSC products have received duty-free treatment between the parties since 1999. In order to establish freedom of movement of agricultural products, Turkey, according to the CUD, will have to adjust its policy in such a way as to adopt the Common Agricultural Policy (CAP).

The CUD requires that Turkey implements the Community's Common Customs Tariffs (CCT) on imports of industrial goods from third countries as of January 1, 1996; adopts by the year 2001 all of the preferential trade agreements the European Union has concluded over time; and implements on the commercial-policy side measures similar to those of the Community's commercial policy. According to the stipulations of the CUD, Turkey maintained rates of protection above those specified in the CCT for certain "sensitive" products until 2001. This implies that high rates of protection stopped in 2001. In order to adopt EU's preferential trade agreements, Turkey has signed FTA's with "European Free Trade Association" countries, Israel, and "Central and

Eastern European" countries. FTA's are being discussed with Tunisia, Egypt, Morocco, and Palestine. Turkey has not yet adopted the GSP (Generalized System of Preferences) scheme of EU.

During the 1960s and 1970s the import regimes discouraged exports by raising the profitability of production for domestic markets over foreign markets. To counteract these adverse effects, export incentives were provided. Exports were encouraged through tax rebates, preferential credits, and tariff exemptions on imported inputs and packaging materials. However, these incentives were not sufficient to eliminate the then prevailing bias against exports. In 1979, Turkey ran up against the limits of foreign borrowing. A structural adjustment program was introduced in 1980. By 1985 Turkey's current account deficit was a manageable $1 billion. The balance of payments turnaround during the 1980s was achieved by dramatic improvements in exports, attained largely through a consistent export promotion policy, which relied on exchange rate policy, credit policy, and fiscal incentives. The government extended credit at preferential rates of interest to producers/exporters of selected products. During the first half of the 1980s, a substantial difference existed between the general lending rate and the rate of interest applied to export credits. However, that system was abrogated in 1985. After 1987, preferential credits to exporters were extended via the newly established Eximbank. Consideration of the system of export incentives during 1980s reveals that the average export subsidy rate was relatively high during 1983 and 1984, but that it decreased considerably during the last few years of the 1980s. In 1985 Turkey joined the GATT Subsidies Code, agreeing to eliminate export subsidies by 1989. Since Turkey is a member of the WTO it has accepted the GATT "1994 Agreement on Subsidies and Countervailing Measures" which prohibits governments from granting subsidies contingent upon export performance. Recently Turkey has eliminated most of the export incentives. Within this context, GATT legal subsidies such as research and development subsidies and subsidies to facilitate the adaptation of plants to new environmental regulations were introduced in 1995.

Consideration of trade data reveals that, with the switch from inward-oriented development strategies to outward-oriented policies in 1980, exports of goods and services as a percent of GDP increased from 5.2 percent in 1980 to 23.2 percent in 1999. Similarly, the share of imports of goods and services in the GDP increased from 11.9 percent in 1980 to 26.9 percent in 1999. Consideration of the merchandise trade data in Table 3.1 reveals that in 1999 Turkish merchandise exports amounted to US $26.6 billion and merchandise imports to US $ 40.7 billion. Exports to EU-15 formed 54 percent of total exports and imports from the EU 52.6 percent of total imports.

Table 3.1: Exports and Imports, 1999

SITC	Commodity	Exports (million US $)	Percentage Distribution	Annual Growth Rate of Exports (1990-99)	Exports to EU (million US $)	Share of Exports to EU in total Exports	Growth Rate of Exports to EU (1990-99)	Imports (million US $)	Percentage Distribution	Annual Growth Rate of Imports (1990-99)	Imports from EU (million US $)	Share of Imports from EU in total Imports	Growth Rate of Imports from EU (1990-99)
	Agricultural Products												
0+1+4+22	Food	4084.7	15.36	4.88	1868.6	13.02	5.36	2038.2	5.01	6.52	480.2	2.24	5.01
2-22-27-28	Agricultural raw materials	356.8	1.34	1.27	187.4	1.31	0.47	1360.2	3.34	8.92	537.3	2.51	8.60
	Mining Products												
27+28	Ores and other minerals	422.8	1.59	5.03	217.8	1.52	3.97	942.4	2.32	6.05	200.2	0.93	4.83
3	Fuels	336.8	1.27	0.46	174.0	1.21	-5.80	5375.3	13.21	3.74	431.7	2.02	7.20
68	Non-ferrous metals	318.7	1.20	9.38	139.0	0.97	8.15	816.3	2.01	10.81	228.5	1.07	6.79
	Manufactures												
67	Iron and steel	1737.3	6.53	3.76	619.6	4.32	17.26	1564.7	3.85	5.94	580.0	2.71	2.42
	Chemicals												
51	Organic chemicals	91.7	0.35	-4.27	61.9	0.43	-0.59	1361.3	3.35	8.80	816.7	3.81	8.69
57+58	Plastics	248.3	0.93	6.24	55.5	0.39	0.23	1551.7	3.81	15.79	1145.1	5.35	16.09
52	Inorganic chemicals	211.1	0.79	6.93	123.9	0.86	11.01	402.8	0.99	3.93	179.6	0.84	4.17
54	Pharmaceuticals	126.5	0.48	8.21	38.7	0.27	20.53	1159.3	2.85	17.57	773.7	3.61	17.76
53+55+56+59	Other chemicals	443.0	1.67	12.94	30.7	0.21	-0.81	1828.8	4.49	9.56	1231.6	5.75	11.34
6-65-67-68	Other semi-manufactures	2054.4	7.73	12.39	945.6	6.59	12.03	2251.3	5.53	10.52	1552.7	7.25	10.59
	Machinery and transport Equipment												
71-713	Power generating machinery	137.5	0.52	32.56	48.9	0.34	37.59	684.6	1.68	14.12	461.9	2.16	14.18
72+73+74	Other non-electrical Machinery	737.1	2.77	19.87	327.0	2.28	20.73	4159.2	10.22	7.43	2936.1	13.71	7.19
75+76+776	Office machines and tel. equipment	821.4	3.09	13.88	635.9	4.43	13.09	4324.7	10.63	12.97	2975.1	13.89	18.29
77-776-7783	Electrical machinery and apparatus	965.9	3.63	16.81	580.6	4.05	17.95	1685.0	4.14	8.87	1141.2	5.33	9.38
78-785-786+ 7132+7783	Automotive products	1437.6	5.41	24.88	920.2	6.41	24.20	3303.3	8.12	15.94	2619.5	12.23	17.98
79+785+786+7131+ 7133+7138+7139	Other transport equipment	937.3	3.53	20.53	431.9	3.01	27.28	1221.3	3.00	7.36	532.6	2.49	8.48

65	Textiles	3477.8	13.08	11.69	1883.2	13.12	8.63	1906.9	4.69	17.80	925.4	4.32	19.47
84	Clothing	6516.0	24.51	8.67	4626.8	32.25	6.24	208.1	0.51	31.82	144.7	0.68	31.05
8-84-86-891	Other consumer goods	1119.9	4.21	18.25	428.6	2.99	11.59	2511.7	6.17	12.61	1498.0	6.99	13.01
9+891	**Other Products**	4.7	0.02	11.32	2.7	0.02	8.85	29.5	0.07	8.17	24.3	0.11	8.43
TOTAL		**26587.2**	**100**		**14348.3**	**100**		**40686.7**	**100**		**21416.3**	**100**	

Source: Author's calculations.

Table 3.1 shows that the three export commodities with the highest shares in total exports were 'clothing' with a share of 24.5 percent, 'food' with a share of 15.4 percent, and 'textiles' with a share of 13.1 percent. On the other hand, the three import commodities with the highest shares in total imports were 'fuels' with a share 13.2 percent, 'office machines and telecommunications equipment' with a share of 10.6 percent, and 'other non-electrical machinery' with a share of 10.2 percent. Similarly, the three export commodities with the highest shares in exports to the EU were 'clothing' with a share of 32.3 percent, 'textiles' with a share of 13.1 percent, and 'food' with a share of 13 percent, and the three commodities with the highest shares in imports from the EU were 'office machines and telecommunications equipment' with a share 13.9 percent, 'other non-electrical machinery' with a share of 13.7 percent, and 'automotive products' with a share of 12.2 percent. During the period 1990 –99 total exports grew at an annual rate of 9.2 percent, and total imports at 9.4 percent. The three export commodities with the highest growth rates were 'power generating machinery' with a growth rate of 32.6 percent, 'automotive products' with a growth rate of 24.9 percent, and 'other transport equipment' with a growth rate of 20.5 percent. On the other hand, the three import commodities with highest growth rates were 'clothing' with a growth rate of 31.8 percent, textiles with a growth rate of 17.8 percent, and 'pharmaceuticals' with a growth rate of 17.6 percent. Similarly, the three export commodities to EU with the highest growth rates were 'power generating machinery' with a growth rate of 37.6 percent, 'other transport equipment' with a growth rate of 27.3 percent, and 'automotive products' with a growth rate of 24.2 percent, and the three imported commodities from EU with the highest growth rates were 'clothing' with a growth rate of 31.05 percent, textiles with a growth rate of 19.5 percent, and 'office machines and telecommunications equipment' with a growth rate of 18.3 percent.

2. Market Access Issues for Industrial Goods

Prior to the successful conclusion of the Uruguay Round, most favored nation (MFN) tariffs in many sectors were not legally bound, and could potentially be raised. This created a lack of security in market access and produced detrimental trade effects. A major goal of the Uruguay Round of Multilateral Trade Negotiations was to increase the proportion of bound industrial tariffs, thus providing added protection to trade liberalization commitments.[1]

To study the structure of bound tariffs in Turkey we consider the 12-digit HS bound tariff and foreign trade data. There are about 20,000 commodities. Given the information on bound tariff rates we aggregate the commodities into 22 sectors reported in Table 3.2. The table shows that 81.4 percent of tariff lines are bound in the case of agricultural products, 14.9 percent in the case of mining products, and 36.5 percent in the case of manufactures. The proportion of bound tariffs exhibits wide-ranging variations across different sectors of the economy. Whereas 83.3 percent of all tariff lines are bound in the case of food products, the proportion goes down to 1.5 percent in the case of clothing products. The table also reports the levels of average bound tariffs by sectors. From the table it follows that the simple bound mean is 62.6 percent in the case of agricultural products and 20 percent in the case of manufactures. There is large variation between the sectors. Whereas the simple bound mean is 73 percent in the case of food products, the mean goes down to 3.3 percent in the case of pharmaceuticals. Next we consider the trade weighted average bound tariff rates calculated as:

$$BoundTariff_j = \sum_{i=1}^{k} t_i^{bj}(M_i^j/M^j)$$

where t_i^{bj} denotes the bound tariff rate on commodity i of sector j, M_i^j the import of commodity i into sector j, M^j total imports of sector j, and k the number of commodities in sector $j(j = 1,...,22)$. The table reveals that the weighted bound mean is 40.2 percent in the case of agricultural products and 9.3 percent in the case of manufactures. As before, there is large variation between the sectors. Whereas the weighted bound mean is 63.6 percent in the case of food products, the mean goes down to 0 percent in the case of other products.

Tariff peaks or spikes refer to the ratio of lines for which the tariff rates exceed a reference level to the total number of lines. Two sets of shares of lines are computed using two reference levels: the first is 15 percent which is called "international peaks," and the second equals three times the national mean tariff which we refer to as "national peaks." A large number of peaks implies a highly differentiated tariff structure whereas a small number of peaks points to a more uniform or "flat" tariff structure. The difference between the two methods of calculation therefore depends on the national mean bound tariff.

Consideration of the figures in Table 3.2 reveals that 27.4 percent of the tariff lines are considered international spikes. On the other hand, the proportion of national spikes is 13.6 percent. The schedule shows a highly differentiated distribution of tariffs. Not surprisingly, the largest number of peaks is to be found in agriculture. The international peaks make up 78.75 percent of the lines in the food sector, and the proportion goes down to 1.51 percent in the case of clothing products. Similarly, the national peaks make up 63.47 percent of the lines in the food sector, and the proportion goes down to zero percent in the cases of mining, iron and steel, inorganic chemicals, pharmaceuticals, other chemicals, power generating machinery, other non-electrical machinery, and electrical machinery and apparatus. Furthermore, the table also shows the maximum bound tariff rates for each sector. The highest bound tariff rates are in food, organic chemicals, and other chemicals sectors.

Table 3.2: Bound Tariff Rates

SITC	Commodity	Number of Tariff Lines	Post-UR Bound Tariff Lines (%)	Post-UR Mean Bound Tariff Rates (Simple)	Maximum Bound Tariff Rate in the Commodity Group	Post-UR Mean Bound Tariff Rates (Weighted)	International Peaks (%)	National Peaks (%)
	Agricultural products	4078	81.4	62.6	225.0	40.2	70.0	52.6
0+1+4+22	Food	3200	83.3	73.0	225.0	63.6	78.8	63.5
2-22-27-28	Agricultural raw materials	878	74.6	19.1	75.0	13.4	38.2	12.9
	Mining products	892	14.9	13.0	20.0	0.6	6.7	0.0
27+28	Ores and other minerals	347	5.8	12.4	20.0	0.2	1.7	0.0
3	Fuels	172	14.0	10.0	20.0	0.1	3.5	0.0
68	Non-ferrous metals	373	23.9	13.9	18.4	3.9	12.9	0.0
	Manufactures	15027	36.5	20.0	102.0	9.3	17.1	3.9
67	Iron and steel	896	23.5	20.9	30.0	9.2	20.4	0.0
	Chemicals	3516	55.8	15.3	102.0	13.2	13.9	3.7
51	Organic chemicals	1560	56.0	14.3	102.0	10.2	18.5	0.3
57+58	Plastics	340	40.0	34.3	50.0	27.6	40.0	37.4
52	Inorganic chemicals	586	49.8	12.4	32.4	8.3	10.4	0.0
54	Pharmaceuticals	452	83.8	3.3	15.0	4.2	0.9	0.0
53+55+56+59	Other chemicals	578	48.8	27.6	102.0	9.2	0.0	0.0
6-65-67-68	Other semi-manufactures	1826	30.8	23.9	50.0	8.8	23.9	9.5
	Machinery and transport equipment	3412	51.1	15.1	50.0	8.3	25.2	1.4
71-713	Power generating machinery	237	70.9	11.4	32.0	6.0	2.5	0.0
72+73+74	Other non-electrical machinery	1397	51.8	12.8	25.9	6.6	25.0	0.0
75+76+776	Office machines and tel. equipment	571	36.1	20.9	50.0	12.0	19.1	7.7
77-776-7783	Electrical machinery and apparatus	579	42.3	15.7	32.6	6.8	14.7	0.0
78-785-786+ 7132+7783	Automotive products	301	90.0	17.4	33.6	12.7	74.1	1.3
79+785+786+7131+ 133+7138+7139	Other transport equipment	327	40.1	17.8	36.8	5.6	26.9	0.3
65	Textiles	2538	14.3	28.5	92.4	5.4	10.8	6.2
84	Clothing	1058	1.5	27.4	47.4	0.5	1.5	0.6
8-84-86-891	Other consumer goods	1781	35.1	17.6	62.2	7.4	17.3	3.6
9+891	**Other products**	54	3.7	35.0	35.0	0.0	3.7	3.7
TOTAL		**20051**	**44.6**	**28.4**	**225.0**	**10.9**	**27.4**	**13.6**

Source: Author's calculations.

For studying the structure of applied tariffs we consider tariff and tariff-like charges on imports in trade with the EU and with third countries separately. In both cases we use the 12-digit HS data on customs duties and housing fund tax. Let t_i denote the rate of customs duty on commodity i plus the ad valorem equivalent of the mass housing fund tax rate. The relation between domestic prices and foreign prices is written $p_i = (1+t_i)\, Ep_i^s$ where p_i denotes the domestic price of commodity i, p_i^s the foreign price of commodity i, and E the nominal exchange rate. To consider the calculation of the ad valorem equivalent of the mass housing duty the following notation is used.

M_i	c.i.f. value of the import of commodity i measured in Turkish liras;
m_i	quantity of the import of commodity i measured in units, the US dollar denominated housing fund tax is reported;
$FUND_1^i$	US dollar denominated housing fund tax rate on commodity i
$FUND_2^i$	ad valorem housing fund tax rate on commodity i
E	exchange rate (Turkish liras per US dollar).

The base of the customs duty is the c.i.f. price. Therefore, this duty is calculated as $t_c^i M_i$. The mass housing fund tax levy is usually specific. For those taxes the ad valorem equivalents of the specific rates need to be calculated.

Given the foreign price of the commodity, $p_i^s = \dfrac{M_j}{m_j E}$, the Turkish lira equivalent of the US dollar denominated levy is calculated as:

$$FUND_1^i m_i E = (M_i(FUND_1^i / p_i^s)).$$

On the other hand, the ad valorem mass housing fund tax rate is given by $FUND_2^i M_i$. The sum total of all the above taxes and surcharges is denoted by

$$t_i = (t_c^i + (FUND_1^i / P_i^s) + FUND_2^i).$$

The average applied tariff in sector j is then calculated as

$$applied\ tariff_j = \sum_{i=1}^{k} t_i^j\ (M_i^j / M^j).$$

where t_i^j denotes the applied tariff rate on commodity i of sector j, M_i^j the import of commodity i into sector j, M^j total imports of sector j, and k the number of commodities in sector j(j= 1,...,22).

Table 3.3 reveals that the average applied tariff rates applicable on imports from the EU amount to 43.4 percent in the case of food, 3.1 percent in the case of agricultural raw materials, and 0.9 percent in the case of other chemicals. In all other sectors of the economy, the average applied tariff rates are zero percent.

Table 3.3: Nominal Protection Rates, 1999

SITC	Commodity	Applied Mean Tariffs (Simple) EU	Maximum Applied Tariff Rate EU	Applied Mean Tariffs (Weighted) EU	Applied Mean Tariffs (Simple) Romania	Maximum Applied Tariff Rate Romania	Applied Mean Tariffs (Weighted) Romania	Applied Mean Tariffs (Simple) Others	Maximum Applied Tariff Rate Others	Applied Mean Tariffs (Weighted) Others
	Agricultural products	33.7	200.0	11.1	33.5	200.0	13.5	35.4	200.0	13.9
0+1+4+22	Food	43.4	200.0	21.4	43.9	200.0	24.6	46.4	200.0	26.8
2-22-27-28	Agricultural raw materials	3.1	49.0	0.8	3.2	49.0	0.4	3.6	49.0	0.9
	Mining products	0.0	0.0	0.0	0.0	0.0	0.0	1.7	12.5	1.1
27+28	Ores and other minerals	0.0	0.0	0.0	0.0	0.0	0.0	0.2	12.5	0.2
3	Fuels	0.0	0.0	0.0	0.0	0.0	0.0	1.3	8.0	0.1
68	Non-ferrous metals	0.0	0.0	0.0	0.0	0.0	0.0	3.3	10.0	1.1
	Manufactures	0.0	27.0	0.0	0.2	79.9	0.4	5.5	79.9	5.9
67	Iron and steel	0.0	0.0	0.0	0.0	0.0	0.0	8.4	30.0	18.3
	Chemicals	0.2	27.0	0.1	0.2	79.9	0.0	4.9	79.9	5.4
51	Organic chemicals	0.0	3.0	0.0	0.1	79.9	0.0	5.8	79.9	5.7
57+58	Plastics	0.0	0.0	0.0	0.0	0.0	0.0	6.9	11.3	8.7
52	Inorganic chemicals	0.0	0.0	0.0	0.0	0.0	0.0	4.9	9.8	6.3
54	Pharmaceuticals	0.0	0.0	0.0	0.0	0.0	0.0	0.2	6.5	0.0
53+55+56+59	Other chemicals	0.9	27.0	0.1	1.0	29.0	0.0	5.5	29.0	5.8
6-65-67-68	Other semi-manufactures	0.0	0.0	0.0	0.1	11.3	0.1	3.4	18.3	3.7
	Machinery and transport equipment	0.0	0.0	0.0	0.2	14.3	0.9	2.7	25.0	4.0
71-713	Power generating machinery	0.0	0.0	0.0	0.0	0.0	0.0	2.6	6.0	3.6
72+73+74	Other non-electrical machinery	0.0	0.0	0.0	0.1	12.5	0.0	1.8	19.2	1.9
75+76+776	Office machines and Tel. equipment	0.0	0.0	0.0	0.0	0.0	0.0	3.1	14.0	3.7
77-776-7783	Electrical machinery and apparatus	0.0	0.0	0.0	0.0	0.0	0.0	2.4	6.9	2.2
78-785-786+ 7132+7783	Automotive products	0.0	0.0	0.0	1.8	14.3	0.0	7.7	25.0	7.7
79+785+786+ 7131+7133+ 7138+7139	Other transport Equipment	0.0	0.0	0.0	0.1	8.6	0.0	2.4	21.4	1.1
65	Textiles	0.0	0.0	0.0	0.0	0.0	0.0	8.4	13.0	7.6
84	Clothing	0.0	0.0	0.0	0.0	0.0	0.0	12.1	13.0	9.4
8-84-86-891	Other consumer goods	0.0	0.0	0.0	0.7	10.7	0.3	4.7	26.8	4.3
9+891	**Other products**	0.0	0.0	0.0	0.0	0.0	0.0	1.8	3.2	0.7

Source: Author's Calculations.

Similar figures hold for the weighted applied rates. The weighted average tariff rate is 21.4 percent in the case of food, 0.8 percent in the case of agricultural raw materials, and 0.1 percent in the case of other chemicals. In all other sectors the average applied tariff rates are zero.

As emphasized above, Turkey has signed FTA with "European Free Trade Association" countries, Israel, and "Central and Eastern European" countries. The table shows that the tariff structure for Romania, a representative of this class of countries, is similar to that for EU. In the case of third countries, the average applied tariff rates applicable to imports from non-EU countries with no FTA's with Turkey amounts to 46.4 percent in the case of food, 3.6 percent in the case of agricultural raw materials, and 5.5 percent in the case of manufactures. In manufacturing, the highest rates apply to clothing, iron and steel, and textile products. Similar figures hold for the weighted applied rates. The weighted average tariff rate is 26.8 percent in the case of food, 18.3 percent in the case of iron and steel, 9.4 percent in the case of clothing, 8.7 percent in the case of plastics, 7.6 percent in the case of textiles, and 5.8 percent in the case of other chemicals.

Examination of the difference between applied rates and those that are bound reveals that tariff rates have been bound at much higher levels than their corresponding applied 1999 MFN rates when one considers the simple averages. On the other hand, when one considers the weighted averages, the figures reveal that GATT-bound tariff rates are lower than the applied tariff rates in the case of trade with third countries for textiles, clothing, and other products. Thus, in those cases, there are products affected by a bound rate that is less than the MFN one.

3. Market Access Issues for Agricultural Commodities and Adoption of CAP

According to the Customs Union Decision (CUD) of 1995 and the FTA with the EU signed in July 1996, all industrial goods circulate freely between the parties. In order to establish freedom of movement of agricultural products, Turkey, according to the CUD, will have to adjust its policy in such a way as to adopt the Common Agricultural Policy (CAP). Furthermore, Articles 17–23 of the CUD determine the percentage of prices of processed agricultural commodities which are "agricultural" as contrasted with the percentage that is "industrial." Since the "industrial" component of processed agricultural products will enter Turkish markets duty free and since protection will apply to the "agricultural" component of these commodities, firms in the food industry will be faced with more competition the higher the fraction of the "industrial" component is.

Table 3.4: Imports of Agricultural Commodities, 1998

HS Code	Description	Imports (US $)	Percentage Distribution	Imports from EU (US $)	Share of Imports from EU in Total Imports
I.	**Live animals and animal products**				
01	Live animals	26,090,886	0.75	15,927,016	61.04
02	Meat and edible offal	272,706	0.01	199,802	73.27
03	Fish and sea products	40,558,109	1.17	19,582,322	48.28
04	Milk and dairy products; eggs; honey	36,157,145	1.04	28,791,417	79.63
05	Other animal products	18,274,355	0.53	3,052,521	16.70
II.	**Vegetable products**				
06	Plants and floriculture products	27,103,086	0.78	25,094,812	92.59
07	Vegetable, plants, roots and tubers	89,836,799	2.60	7,160,532	7.97
08	Edible fruits; citrus fruits	63,315,983	1.83	5,437,198	8.59
09	Coffee, tea, spices	39,241,123	1.13	5,258,512	13.40
10	Cereals	465,670,562	13.45	54,205,506	11.64
11	Products of the milling industry	2,660,455	0.08	1,995,193	74.99
12	Oilseeds, various seeds/fruits; industrial plants	353,170,319	10.20	31,460,203	8.91
13	Vegetable lacquers, resins, balsams	16,103,922	0.47	14,344,189	89.07
14	Vegetable plaiting materials	2,506,139	0.07	101,413	4.05
III.	**Animal or vegetable oils and fats**				
15	Animal or vegetable oils and fats	517,092,150	14.94	113,152,194	21.88
IV.	**Foodstuffs, beverages, tobacco**				
16	Products made from meat, fish, crustacea	2,924,841	0.08	1,619,517	55.37
17	Sugar and sweets	13,192,314	0.38	10,327,412	78.28
18	Cocoa and cocoa products	69,550,495	2.01	23,954,208	34.44
19	Cereal products, wheat floor, pastries	32,749,795	0.95	31,482,511	96.13
20	Foods made of vegetable, fruits, and other plants	24,817,888	0.72	17,255,735	69.53
21	Various foods	86,686,128	2.50	64,827,508	74.78
22	Alcoholic and non-alcoholic beverages	15,414,897	0.45	10,442,791	67.74
23	Residues of food industry; fodders	157,764,317	4.56	17,402,209	11.03
24	Processed tobacco and substitutes	307,379,957	8.88	29,865,617	9.72
V.	**Hides, Wool and Cotton**				
4101-4103	Hides and skin	369,774,303	10.68	165,474,360	44.75
5101-5103	Wool and animal hair	75,103,219	2.17	2,155,719	2.87
5201-5203	Cotton	607,878,295	17.56	89,416,271	14.71
TOTAL		**3,461,290,188**	**100**	**789,986,688**	**22.82**

Source: Author's calculations.

Consideration of the imports of agricultural commodities defined as HS 01–24, HS 41.01–41.03, HS 51.01–51.03, and HS 52.01–52.03 in Table 3.4 reveals that in 1998 total agricultural imports amounted to US $3.5 billion and that imports of agricultural commodities from the EU formed 22.8 percent of all agricultural imports. Table 3.4 indicates that the three import commodities with the highest shares in total agricultural imports were 'cotton' with a share of 17.6 percent, 'animal or vegetable oils and fats' with a share of 14.9 percent, and 'cereals' with a share of 13.5 percent. Similarly, the three agricultural commodities with the highest shares in imports from the EU were 'hides and skin' with a share of 21 percent, 'animal or vegetable oils and fats' with a share of 14.9 percent, and 'cotton' with a share of 11.3 percent.

Table 3.5 shows the bound and applied tariff rates for major agricultural commodity groups. The table reveals that the agricultural sector is highly protected in Turkey, and that the tariff rates applied on imports from the EU are not significantly different from the tariff rates applied on imports from third countries. In the case of tariffs applied to imports from the EU, we note that the three sectors with the highest simple average tariff rates are HS 02 'meat and edible offal' with a tariff rate of 117.1 percent, HS 16 'products made from meat, fish, crustaceans' with a tariff rate of 84 percent, and HS 20 'foods made of vegetable, fruits and other plants' with a tariff rate of 58.2 percent. Similarly, the three sectors with the highest simple average tariff rates applied to imports from third countries are HS 02 'meat and edible offal' with a tariff rate of 117.2 percent, HS 16 'products made from meat, fish, crustaceans' with a tariff rate of 89.9 percent, and HS 04 'milk and dairy products; eggs; honey' with a tariff rate of 78.8 percent. In the case of tariffs applied to imports from the EU we note that the three sectors with the highest weighted average tariff rates are HS 02 'meat and edible offal' with a tariff rate of 100.1 percent, HS 04 'milk and dairy products; eggs; honey' with a tariff rate of 81.4 percent, and HS 16 'products made from meat, fish, crustaces' with a tariff rate of 62.8 percent. Similarly the three sectors with the highest weighted average tariff rates applied to imports from third countries are HS 08 'edible fruits; citrus fruits' with a tariff rate of 107 percent, HS 20 'foods made of vegetable, fruits and other plants' with a tariff rate of 83.4 percent, and HS 04 'milk and dairy products; eggs; honey' with a tariff rate of 79.9 percent. Finally, we note that the maximum applied tariff rate is 200 percent and it is applied to certain meat and edible offal products.

Regarding market access conditions for agricultural commodities imported from the EU we note that the preferential regime applied by Turkey to the imports of agricultural products originating in the EU is determined by the Decision No. 1/98 of the EC-Turkey Association Council of 1998. According to this Decision, Turkey grants a large number of commodities duty-free access to the Turkish market up to quota limits specified in the Decision.

Table 3.5: Protection in Agriculture

	HS Code	Description	Number of Tariff Lines	Applied Mean Tariffs (Simple) EU	Maximum Applied Tariff Rate EU	Applied Mean Tariffs (Weighted) EU	Applied Mean Tariffs (Simple) Third Countries	Maximum Applied Tariff Rate Third Countries	Applied Mean Tariffs (Weighted) Third Countries
I.	**Live animals and animal products**								
	01	Live animals	103	52.4	115.0	6.7	52.4	115.0	3.4
	02	Meat and edible offal	238	117.1	200.0	100.1	117.2	200.0	72.3
	03	Fish and sea products	460	38.0	55.0	7.2	34.7	65.0	13.7
	04	Milk and dairy products; eggs; honey	224	54.6	140.0	81.4	78.8	140.0	79.9
	05	Other animal products	48	3.4	20.0	4.8	3.7	20.0	7.2
II.	**Vegetable products**								
	06	Plants and floriculture products	57	3.4	49.0	0.9	22.8	49.0	10.4
	07	Vegetable, plants, roots, and tubers	185	20.2	51.0	20.0	20.3	51.0	19.0
	08	Edible fruits; citrus fruits	213	42.1	119.0	49.9	44.0	119.0	107.0
	09	Coffee, tea, spices	61	35.3	145.0	29.3	35.3	145.0	33.1
	10	Cereals	63	27.2	85.0	52.4	29.0	85.0	44.1
	11	Products of the milling industry	107	43.0	82.0	29.4	43.0	82.0	29.3
	12	Oilseeds, various seeds/fruits; industrial plants	125	17.4	35.0	15.5	18.1	35.0	19.4
	13	Vegetable lacquers, resins, balsams	47	0.0	0.0	0.0	0.5	3.8	0.7
	14	Vegetable plaiting materials	31	0.0	0.0	0.0	0.0	0.0	0.0
III.	**Animal or vegetable oils and fats**								
	15	Animal or vegetable oils and fats	230	17.8	53.4	9.7	19.4	53.4	17.0
IV.	**Foodstuffs, beverages, tobacco**								
	16	Products made from meat, fish, crustaceans	147	84.0	100.0	62.8	89.9	100.0	61.7
	17	Sugar and sweets	70	33.2	142.5	30.7	38.6	142.5	52.8
	18	Cocoa and cocoa products	29	8.6	41.3	7.5	20.6	57.2	1.5
	19	Cereal products, wheat floor, pastries	76	7.3	32.5	10.4	20.6	84.3	22.6
	20	Foods made of vegetable, fruits and other plants	374	58.2	143.4	28.6	61.0	143.4	83.4
	21	Various foods	72	4.7	50.0	2.7	15.0	50.0	16.1
	22	Alcoholic and non-alcoholic beverages	193	26.2	50.0	1.9	40.5	79.9	4.4
	23	Residues of food industry; fodders	82	8.3	14.2	2.8	8.8	14.2	2.8
	24	Processed tobacco and substitutes	204	23.3	25.0	10.3	27.7	88.9	24.5
V.	**Hides, wool and cotton**								
	4101-4103	Hides and skin	56	0.0	0.0	0.0	0.0	0.0	0.0
	5101-5103	Wool and animal hair	117	0.0	0.0	0.0	0.0	0.0	0.0
	5201-5203	Cotton	33	0.0	0.0	0.0	0.0	0.5	0.0

Source: Authors calculations.

Table A3.1 shows the reduction in tariff rates and the quotas for some of the agricultural commodities specified in Decision No 1/98 of the EC-Turkey Association Council. It also shows the total imports, imports from EU, the EU's share in total imports of the commodity and the relevant tariff rate when quota limits are exceeded. The table reveals that for most of the commodities considered in the table, 100 percent tariff reductions will be applied on imports from EU up to the quota limits, and that for most commodities the quota limits have been exceeded. Thus "out of quota" tariff rates are in general applicable for imports from the EU for the commodities concerned. Finally, note that total imports of HS 02 "meat and edible offal" amounted to only $272.7 thousand whereas it was one of Turkey's major import items prior to 1996. From 1996 onward Turkey imposed a temporary import ban on live animals (dairy and beef cattle, sheep, goats, and poultry) and meat (beef, sheep, goats, and poultry), although Decision No. 1/98 of the EC-Turkey Association Council of 1998 specifies tariff-quotas for these commodities. Although officially the reason for import prohibition is stated as protection of livestock industry from epidemic diseases, the main reason, as stressed by Grethe (1999), seems to be the protection of domestic industry.

To study prospects for establishing freedom of movement of agricultural products between Turkey and the EU within the context of CAP we turn to a discussion of the preferential regime applied by the EU to imports of agricultural products originating in Turkey and then to the analysis of support policies in Turkey and EU, and finally to the assessment of prospects for adoption of CAP.

The preferential regime applied by the EU to imports of agricultural products originating in Turkey is determined by Decisions Nos. 1/72, 1/80, and 1/98 of the EC-Turkey Association Councils of 1972, 1980, and 1998. According to these Decisions almost all agricultural commodities originating in Turkey are imported into the Community free of ad valorem duties and the EU applies tariff quotas only for those commodities shown in Tables A3.2 and A3.3. The data in Tables 3.2, A3.2, and A3.3 reveal that these commodities formed about 30 percent of Turkish exports to the EU during 1999. In addition, the EU applies an entry price system for about 30 vegetables and fruits such as tomatoes, artichokes, courgettes, tangerines, lemons, and apples. For these commodities, specific duties are applied as long as the value of consignment falls below the entry price. These commodities, shown in Table 3.6, formed about 4.8 percent of Turkish agricultural exports to the EU in 1999.

The above considerations reveal that substantial border measures still remain between the EU and Turkey and that external tariffs applied by the EU and Turkey to third countries' imports differ significantly. Completing the customs union between EU and Turkey so as to cover the agricultural products would imply the abolition of all border measures and the adoption of external tariff applied to third countries by the EU.

As a result, agricultural prices of products for which border measures still exist would come much closer in the EU and Turkey, with remaining differences being due to quality and transportation/marketing costs. But this will require an agricultural price policy to be harmonized between the parties. To emphasize this point, imagine an intervention price e.g. for wheat in Turkey above that in EU. In that case, wheat produced in the EU would be exported to Turkey to be sold to the intervention agency in Turkey. The process would certainly come to an end because of the budget constraint of the Turkish intervention agency. On the other hand, as mentioned by Grethe (1997), different levels of direct support policies and input subsidies in Turkey and the EU could in principle remain.

Turning to consideration of support policies in the EU, we note that the current policies continue to be based on market price support provided through administered prices, export subsidies, and tariffs. Price support policies are combined with production quotas and/or land set-aside. A package of measures called Agenda 2000 was agreed by EU heads of state at the March 1999 European Summit in Berlin. The aim of the agricultural policy reform was to meet the goals of budget reduction and preparation for enlargement. The reform package can be summarized as continuing the shift from support prices to direct payments that began with the 1992 CAP reform package. According to the reform package, the cereals intervention price will be reduced by 15 percent in two equal steps in the years 2000–01 and 2001–02. As cereals support prices fall, compensatory payments rise for cereals but decline for oilseeds and land set-aside. The intervention price for beef and veal will be reduced by 20 percent in three steps over the period 2000–02. Beef producers will receive compensatory payments in the form of increases in existing, and the introduction of new, premia. Intervention prices for butter and skimmed milk powder will be reduced by 15 percent in three steps starting in 2005. A new direct payments system based on production quota volumes will be introduced as price support falls. The above considerations reveal that EU farm policies are reducing reliance on commodity price supports and moving toward direct income support. The support prices are approaching world prices and they are likely to get closer in the future.

In Turkey, support for agriculture has been provided through purchases by the state of the agricultural output at floor prices, subsidized loans, and direct subsidization of agricultural inputs. The commodities whose prices have been supported through state purchases include cereals (wheat, barley, rye, maize, and oats), sugar beet, tobacco, and tea. Under the price support scheme, the public sector is commited to purchasing products through public marketing agencies and agricultural sales cooperatives at support prices announced by government decree each year. Lately, a system of deficiency payments was introduced for some crops such as cotton and oilseeds.

Table 3.6: Agricultural Products For Which the EU Entry Price System Applies

HS	Description	1999 Turkish Exports to EU (US Dollars)
07020000	Tomatoes	2,306,800
07070005	Cucumbers	1,303,757
07091000	Artichokes	9,307
07099070	Courgettes	1,417,562
08051030	Oranges	5,191,270
08051050	Oranges	174,027
08052010	Clementine	439,670
08052030	Satsumas	69,803
08052050	Mandarines	-
08052070	Tangerines	-
08052090	Citrus hybrids	8,010,676
08053010	Lemons	13,367,259
08061010	Grapes	21,834,061
08081000	Apples	-
08081050	Apples - Granny Smith	1,735
08081090	Other Apples	5,350
08082010	Pears	-
08082050	Other pears	1,520,560
08091000	Apicots	674,115
08092005	Sour cherries	189,787
08092095	Table cherries	37,176,175
08093010	Peaches	-
08093090	Other peaches	310,744
08094005	Plums	1,270,287
20096011	Fruit juices	-
20096019	Fruit juices - grapes	410,950
20096051	Fruit juices - grapes	271,163
20096059	Fruit juices - grapes	768
22043092	Wine of fresh grapes	-
22043094	Wine of fresh grapes	-
22043096	Wine of fresh grapes	-
22043098	Wine of fresh grapes	16,965
TOTAL		95,972,791

Source: Author's calculations

Under this scheme, the government announces a target price together with a low world price-based intervention price. Farmers selling their crops to public marketing agencies receive the difference between price obtained and the target price as a payment directly from Agricultural Bank, which is then reimbursed by the Treasury. In addition to high producer prices the agricultural sector has been supported through subsidized loans. Short-term and investment credit for agriculture has been subsidized by the government at interest rates well below inflation and commercial rates. Interest rates on loans from the Agricultural Bank have been significantly negative in real terms. Finally, subsidies for fertilizers, pesticides, and irrigation have been significant in Turkey.

Recently, the Turkish authorities decided to phase out the system of support mechanism summarized above as a condition of support for the stabilization program by IMF.[2] The government is intending to phase out unsustainable and distortionary system of subsidies for fertilizer, credit, and price supports. A direct income support scheme has been introduced. Furthermore, the program aims to encourage farmers to quit producing crops which are currently heavily overproduced by offering one-time payments to cover costs of switching to alternative activities. Finally, it aims to turn, through a process of restructuring and privatization, quasi-governmental sales cooperative unions, previously used to administer support prices, into organizations dedicated to serving their farmer members.

Table 3.7: Total Support to Agriculture in Turkey and the EU

	1997-99	1997	1998	1999
Support/GDP (%)				
Turkey	8.01	6.79	8.96	8.29
EU	1.53	1.52	1.6	1.49
Total Support per capita ($)				
Turkey	245	205	279	249
EU	344	335	362	336
Producer support Estimate/Agricultural Land ($/ha)				
Turkey	295	247	348	292
EU	845	815	890	831
Composition of Total Support (%)				
Turkey				
Transfers from consumers	58.83	57.10	59.62	39.70
Transfers from taxpayers and budget revenues	41.17	42.90	40.38	60.30
EU				
Transfers from consumers	36.97	33.16	38.09	39.70
Transfers from taxpayers and budget revenues	63.03	66.84	61.91	60.30

Source: OECD (2000).

With the reform program, the government is introducing the "decoupled" direct income payments system as in the EU. The direct income support scheme will base payments on land registration records and payments and will be approximately US$100 per hectare. The government aims to cap the program at 20 hectares, thus limiting payments to the top end of land distribution. Calculations reveal that this figure will represent an eventual annual expenditure of US$1.9bn per year. In 2000, the direct income support program was tested in a pilot basis. Rollout of the program at the national level started in 2001 and was completed in 2002. According to the reform program, subsidies for support prices were phased out in 2002. The government has already phased out agricultural credit subsidies and is committed to phase out fertilizer subsidy over time. In 2001, the government reduced the premiums paid on oilseeds and cotton, started to reform the pricing mechanism for sugar beets, and reduced payments under the tea-pruning program.

According to the estimates of OECD (2000), total support to the agricultural sector in Turkey amounted to US$12.891bn in 1997 and US$17.784bn in 1998. On the other hand total support to agriculture in EU has amounted to US$ 124.965bn in 1997 and US$135.57bn in 1998. Table 3.7 shows that whereas Turkey's total support as a percentage of GDP over the period 1997–99 was 8.01 percent, the estimate is only 1.53 percent in EU.

Table 3.8: Selected Institutional Prices in Turkey and EU

Table 8a: Administered Floor Prices for Cereals and Sugar Tobacco in Turkey

Product	1998		1999	
	TL mn/t	US$/t	TL mn/t	US$/t
Wheat				
Durum, Anatolian	72	277	92	220
Durum, other	61	235	84	201
Hard, white	58	223	80	192
Hard, red Anatolian	53	204	80	192
White Barley	39	150	60	144
Rye	41	159	57	136
Maize	46	175	65	155
Sugar beet	18	68	28	66

Source: Various issues of the Official Gazette.

Table 8b: Selected Institutional Prices in EU

Product	1998		1999	
	ECU/t	US$/t	ECU/t	US$/t
Wheat				
Durum	119	133	119	127
Common	119	133	119	127
Barley	119	133	119	127
Rye	119	133	119	127
Maize	119	133	119	127
Sugar beet, Italy	47	52	47	50

Source: European Commission (2000).

Over the same period, as total support per capita amounted to US$245 in Turkey and US$344 in the EU, producer support estimate per hectare of agricultural land amounted to US$295 in Turkey and US$845 in the EU. Whereas in Turkey, 58.8 percent of support is financed by consumers through agricultural support prices and 41.17 percent from the tax payers, the share of support financed by consumers in the EU is 36.97 percent.

Table 3.8 shows the institutional prices for cereals and sugar in Turkey and the EU. Consideration of the data in the table reveals that Turkish prices of the commodities under consideration are higher than those prevailing in the EU. Under a customs union between Turkey and the EU, commodity prices in Turkey will come closer to those in EU. Hence for the commodities under consideration, the producer prices in Turkey will have to decline considerably after the formation of the single market in agricultural commodities between Turkey and EU. Furthermore, with the implementation of Agenda 2000 in the EU, prices of those commodities are expected to fall toward their world price levels. As a result, Turkish prices will have to fall further.

With the adoption of the CAP by Turkey, prices of major agricultural commodities in the country will fall toward world-price levels, as prices in the EU will also fall toward those levels with the abandonment of price support policies. As mentioned above, the adoption of the CAP by Turkey does not require the harmonization of the levels of direct support policies in the EU and Turkey. Different levels of direct support policies in Turkey and the EU can, in principle, remain.

Recently the government has introduced a comprehensive agricultural reform program. Although the aim of the program is not to harmonize policy with the CAP, by increasing the efficiency of the sector it will help Turkey to meet the criterion of competitiveness in the unified European market, a pre-condition set down by the EU for accession.

It has been emphasized that during the period 1997–99 total support to agriculture as a percentage of GDP was at the unsustainable level of 8.01 percent and that producer support estimate per hectare of agricultural land amounted to US$295 per hectare. Since the reform program aims to reduce this support, the change will help the government to satisfy budget constraints imposed by the macroeconomic stabilization package agreed with the IMF. But by reducing the support to agriculture from US$295 per hectare to US$100 per hectare, the reform will reduce the farmers' income substantially. The change may face resistance from income groups that will be hurt by the reform program. But even this reduced amount of subsidy is expected to represent an annual expenditure of US$1.9 bn per year.

Recently, the European Union in the context of the accession of Central and Eastern European (CEE) countries, declared that the CEE countries will not be eligible for direct income support payments from the EU. Since similar considerations will apply for Turkish farmers, it seems that Turkey does not have a choice other than financing the direct income support expenditures from its own budget. Furthermore, substantial resources will be required by the Turkish Land Registry and Cadastre Directorate in order to develop a reliable and accurate national registry of farmers. These costs will certainly cause a heavy burden on the Turkish budget. But all these costs can be regarded as the cost of joining the EU.

The above considerations reveal that Turkey is taking appropriate measures for the adoption of CAP. But more needs to be done. For Turkey the adoption of CAP will require organizational changes in agricultural institutions, harmonization of legislation and regulations including veterinary, sanitary, and phytosanitary standards, and improvement in agricultural statistical systems, including farmer and livestock registration.

4. Non-Tariff Barriers

Following Laird (1997), non-tariff measures (NTM) can be classified under five headings: (i) measures to control the volume of imports including prohibitions and quantitative restrictions (QRs) on imports as well as export restraint agreements; (ii) measures to control the price of imported goods including the use of reference or trigger-price mechanisms, variable levies, anti-dumping duties, countervailing measures, etc.; (iii) monitoring measures including price and volume investigations and surveillance through dumping and subsidization;, (iv) production and export measures including the subsidies granted to material and other inputs to the production process; and (v) technical barriers, including the barriers imposed for health and safety reasons on imported commodities to ensure that they conform to the same standards as those required by law for domestically produced goods.

In Turkey, the importation of some commodities such as narcotics, ozone depleting substances, coloring matters, measurement instruments not conforming to Turkish standards, arms and ammunitions, and gambling instruments are prohibited by law for a variety of reasons such as health, environment, security, public morals, and fulfilment of international obligations. On the other hand, importation of certain other items such as telecommunications related items, some machinery, some motor vehicles, transmission apparatus, some chemicals, and a number of items related to civil aircraft require prior import licenses. As stated by the WTO (1998), importers of 177 items at the HS four-digit level must obtain permission from relevant authorities. Furthermore, the importation of old, used, renovated, faulty, and obsolete goods is subject to permission by the Undersecreteriat of Foreign Trade.

Table 3.9: Anti-dumping Measures in Force, May 2000

Product	Country	*Official Gazette* Date	Duty
Untwisted other yarn out of polyester (5402.43)	South Korea	30/11/1999	0-21.2%
Polyester synthetic staple fibers (not processed) (5503.20.00.00.00)	Belarus	29/05/1998	19%
	South Korea	13/03/2000	11.9-24.6%
	Indonesia		6.2-37.4%
Steel billets, rolled or obtained by continuous casting			
(7207.11.16.00.13)	Russia	5/6/95	US$24/tonne
(7207.11.14.00.13)	Ukraine		US$17/tonne
(7207.20.15.00.13)	Moldavia		US$29/tonne
(7207.11.14.00.14)			
(7207.11.16.00.14)			
(7207.20.15.00.14)			
Cast fittings: - other (7307.19)	Brazil	27/04/2000	50%
	China		95%
Pocket lighters, gasfilled, refillable (9613.20.90.00.00)	China	29/05/1998	$ 0.12/unit

Source: Undersecretariat for Foreign Trade (2000).

The importation and production of pharmaceuticals, foodstuffs, and agricultural products are subject to health and sanitary controls. Imports of these commodities require a 'control certificate' issued by the Ministry of Health for pharmaceutical products, drugs, some medical products, cosmetics, and detergents, and by the Ministry of Agriculture and Rural Affairs for foodstuffs, and agricultural, animal, and veterinary products. In order to obtain the control certificate, a pro forma invoice, a health certificate, a certificate of analysis, a formula or list of contents of the product, a pedigree certificate, and a radiation analysis report must be presented to the Ministry. The documents are obtained from the authorities of the exporting country. Furthermore, an inspection certificate is required for the importation of goods subject to health and sanitary controls. The inspection certificate is filed with the ministry in charge.

In the case of textile and clothing products, we note that the CUD included specific provisions with respect to their trade. These provisions were stated in Article 12 of CUD, supplemented by related statements by both parties. Such provisions called for Turkey's adoption of the relevant EC regulations concerning imports of textiles and clothing, in particular Council Regulation 3030/93, which provided for the bilateral agreements with supplier countries to be implemented by a set of EC quantitative limits on certain imports and for a system of import surveillance. Two Decrees issued by Turkey's Council of

Ministers on April 30, 1995 laid down the basis for the alignment of Turkish commercial policy in textiles and clothing to that of the European Communities. The quotas for a variety of textile and clothing products were distributed during 1998 among 21 countries, of which 15 were WTO Members. Besides the import quotas on certain textile and clothing products, Turkey has also introduced quotas for imports of some products originating from China such as footwear, tableware and kitchenware of porcelain or china, ceramic tableware or kitchenware, and toys. Finally, regarding the safeguard actions we note that Undersecretariat of Foreign Trade has the authority to propose, apply, and monitor surveillance and safeguard measures, as well as to determine the quantities and/or values of quotas, in order to protect domestic industries. But as at the year 2000, Turkey has still not initiated any investigation nor applied any measure against WTO Members within the framework of the GATT Article XIX.

Under the legislation on anti-dumping and countervailing measures enacted on October 1, 1989, imports (i) causing a material injury to an industry, (ii) constituting a threat of material injury to an industry, (iii) causing the market impairment of an industry to be newly established in Turkey, or (iv) causing physical retardation of an industry to be established in Turkey, may be filed for investigation. Turkey has been an active user of its anti-dumping legislation. In the period 1989 to 2000 Turkey imposed definitive anti-dumping measures in 19 cases out of a total of 47 investigations initiated.

The measures mainly affected textile products, base metals, and articles thereof. As of May 2000, there are very few commodities for which Turkey applies anti-dumping duties as shown in Table 3.9. By May 2000, Turkey had not initiated nor imposed any countervailing measures.

Among non-tariff barriers, technical barriers are certainly of prime importance. Technical barriers are said to exist as long as Turkey and other countries impose different standards as conditions for entry, sale, and use; the parties have different legal regulations on health, safety, and environmental protection; and the parties have different procedures for testing and certification in order to ensure conformity to existing regulations or standards.

Under the European Community's new approach to removing technical barriers essential policy requirements for particular products are set out, while development of technical standards conforming to the requirements has been entrusted to standardizing bodies. In 1989 the Community has put in place a "global approach to testing and certification" which is based on mutually acceptable auditing procedures. Goods manufactured pursuant to the requirements of the global approach are permitted to display a generic mark of conformity—the "CE" mark. All goods displaying that mark are entitled to circulate freely within Europe and are exempted from conformity assessment by an importing nation.

Table 3.10: Import Coverage Ratios of NTBs

SITC	Commodity	Antidumping Duties	Automatic Licensing	Authorization to Protect Human Health	Authorization to Ensure Human Safety	Authorization to Ensure National Security	Authorization for Purposes n.e.s.
	Agricultural products						
0+1+4+22	Food	0.00	0.00	0.00	0.00	0.00	0.00
2-22-27-28	Agricultural raw materials	2.41	0.00	0.00	0.00	0.00	0.00
	Mining Products						
27+28	Ores and other minerals	0.00	0.00	0.82	0.00	0.00	0.00
3	Fuels	0.00	9.60	0.00	0.00	0.00	0.00
	Manufactures						
68	Non-ferrous metals	13.33	0.00	0.00	0.00	0.00	0.00
67	Iron and steel	0.00	0.00	0.00	0.00	0.03	0.00
	Chemicals						
51	Organic chemicals	0.45	0.59	0.00	0.00	5.65	0.00
57+58	Plastics	15.91	0.00	0.00	0.00	0.00	0.00
52	Inorganic chemicals	0.00	0.00	1.12	1.12	0.00	0.00
54	Pharmaceuticals	0.00	0.00	0.00	0.00	0.00	0.00
53+55+56+59	Other chemicals	0.00	0.50	0.00	2.86	2.86	0.00
6-65-67-68	Other semi-manufactures	7.07	0.00	0.00	0.24	0.22	0.22
	Machinery and transport equipment						
71-713	Power generating machinery	0.00	0.00	0.00	0.00	3.57	9.82
72+73+74	Other non-electrical machinery	0.21	0.00	0.01	0.64	0.15	11.91
75+76+776	Office machines and tel. equipment	0.00	0.00	0.00	0.00	1.37	65.92
77-776-7783	Electrical machinery and apparatus	0.91	0.00	4.27	4.27	0.09	18.30
78-785-786+ 7132+7783	Automotive products	0.00	0.00	0.00	30.77	0.01	28.80
79+785+786+7131+ 7133+7138+7139	Other transport equipment	0.00	0.00	0.00	0.00	2.07	1.50
65	Textiles	0.00	0.00	0.00	0.00	0.00	0.00
84	Clothing	0.00	0.00	0.00	0.00	0.00	0.00
8-84-86-891	Other consumer goods	1.17	0.00	0.00	0.00	2.32	3.02
9+891	**Other products**	0.00	0.00	0.00	30.67	0.00	0.00

Source: Author's calculations.

In Turkey, the Turkish Standards Institute (TSE) sets the standards for products. It is a non-governmental organization established in 1960. After 1993, the TSE started to adopt and harmonize its standards with those of EU. By now 90 percent of EU standards have been adopted as Turkish standards. Furthermore a National Quality and Accreditation Control body was established in 1995 under the chairmanship of TSE. Recently, the law establishing an independent accreditation council working in accordance with EU practices has been enacted.[3] The aim is to ensure the recognition of Turkish laboratories, testing, and certification bodies by the EU.

Table 3.10 utilizes UNCTAD's Trains Database, which considers five types of nontariff barriers (NTBs) for the year 1997. These barriers are antidumping duties, automatic licensing, authorisation to protect human health, authorization to ensure human safety, authorisation to ensure national security and authorization for purposes n.e.s.

Although the data set is rather restrictive it can be used to obtain import coverage ratios for these NTBs. The table shows that in the case of anti-dumping duties the sectors with the highest import coverage ratios are 'plastics,' 'non-ferrous metals' and 'other semi-manufactures.'

In the case of automatic licensing, the sector with the highest import coverage ratio is the 'fuels' sector. In the case of authorization to protect human health the sectors with the highest import coverage ratios are 'electrical machinery and apparatus,' 'inorganic chemicals,' and 'ores and other minerals.' In the case of authorization to ensure human safety, the sectors with the highest import coverage ratios are 'automotive products,' 'electrical machinery and apparatus,' and 'other chemicals.' In the case of authorization to ensure national security, the sectors with the highest import coverage ratios are 'organic chemicals', 'power generating machinery' and 'other chemicals'. Finally, in the case of authorization for purposes n.e.s., the sectors with the highest import coverage ratios are 'office machines and telecommunications equipment,' 'automotive products,' and 'electrical machinery and apparatus.'

5. Market Access Issues for Services

In Turkey, services dominate the economic landscape. Table 3.11 shows that during 1999, the share of services in the GDP amounted to 61.7 percent and that services provided 39.1 percent of total employment in the economy. Over the period 1990–99 value added in services at constant prices increased at on annual rate of 3.94 percent, and employment at a rate of 2.39 percent. A more detailed analysis of the service sectors can be obtained by considering the 1996 input-output (I-O) table prepared by the State Institute of Statistics. The table distinguishes between 29 service and energy sectors.

Table 3.11: Value Added and Employment

	Value Added 1999 (Trillion TL)	Share in GDP (%)	Growth Rate of Real VA 1990-1999	Employment ('000)	Share in Employment (%)	Growth Rate of Employment 1990-1999
Agriculture	11,634.13	15.0	1.23	10,096	45.8	0.62
Industry	17,973.87	23.2	4.76	3,329	15.1	1.64
Services	47,766.81	61.7	3.94	8,626	39.1	2.39
TOTAL	**77,374.80**	**100**	**3.76**	**22,051**	**100**	**1.47**

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

Table 3.12: Characteristics of Services and Energy Sectors, 1996

	Value Added 1996	Share of the Sector in Total Serv. Value Added	Share of the Sector in the Price of Agriculture	Share of the Sector in the Price of Mining	Share of the Sector in the Price of Manufacturing
	(US$ million)	(%)	(%)	(%)	(%)
Electricity	3409.4	2.96	0.27	2.42	2.37
Gas	141.2	0.12	0.02	0.00	0.11
Water	990.2	0.86	0.15	0.07	0.24
Construction	10625.8	9.22	0.00	0.00	0.00
Railway transport	90.0	0.08	0.01	0.52	0.07
Land transport	18567.3	16.11	1.28	1.70	3.12
Water transport	1844.9	1.60	0.10	0.36	1.05
Air transport	965.7	0.84	0.00	0.00	0.00
Post & Telecommunications	2351.8	2.04	0.03	0.17	0.28
Financial Intermediation	8104.4	7.03	4.47	2.27	1.71
Insurance	474.1	0.41	0.08	0.07	0.08
Education	885.3	0.77	0.00	0.00	0.00
Health	1050.3	0.91	0.02	0.00	0.00
Other Services	65763.3	57.05	2.50	4.21	7.00
Total Services	**115263.8**	**100**	**8.94**	**11.79**	**16.04**

Source: State Institute of Statistics, (2001).

In Table 3.12 we consider a section of these sectors such as financial intermediation, telecommunication, electricity, and transportation. The other 13 service sectors not shown separately have been aggregated under 'other services.' The table reveals that in terms of value added, the three important sectors besides 'other services' are land transport, with a share of 16.11 percent in total services value added; construction, with a share of 9.22 percent; and financial intermediation, with a share of 7.03 percent. The table also shows the share of the individual sectors in the price of agriculture, mining, and manufacturing. The table reveals that in terms of cost, the three most significant contributors from the services sectors to the total cost of agricultural sector are financial intermediation, with a share of 4.47 percent; other services with a share of 2.5 percent and land transport with a share of 1.28 percent. Similarly, the three most significant contributors from the services sectors to the costs of manufacturing sector are other services, with a share of 7 percent; land transport, with a share of 3.12 percent; and electricity, with a share of 2.37 percent.

Table 3.13: Trade in Services (Millions of U.S. dollars)

	1994	1995	1996	1997
Transportation Services				
Credit	1,221	1,712	1,756	2,193
Debit	-953	-1,412	-1,745	-1,881
Travel				
Credit	4,321	4,957	5,650	7,002
Debit	-866	-911	-1,265	-1,716
Construction				
Credit	1,263	1,863	1,967	2,455
Debit	-7	-4	-22	-160
Insurance				
Credit	9	20	24	43
Debit	-34	-42	-30	-41
Financial				
Credit	123	201	280	347
Debit	-288	-350	-395	-505
Other Business Services				
Credit	2,152	3,440	2,269	4,928
Debit	-500	-557	-715	-984
Personnel, cultural, and recreational				
Credit	1,634	2,282	949	2,225
Debit	-770	-1,378	-1,860	-2,798
Government, n.i.e.				
Credit	78	131	156	180
Debit	-364	-370	-394	-422
TOTAL				
Credit	10,801	14,606	13,051	19,373
Debit	-3,782	-5,024	-6,426	-8,507

Source: IMF (1998).

Table 3.13, which is derived from the IMF Balance of Payments Yearbook, reveals that the service trade has grown considerably over time. During 1999 export of services amounted to $19.4 billion and imports of services to $8.5 billion. Among the services exported, the most important are 'travel,' 'other business services,' and 'construction,' and among the services imported 'personal, cultural, and recreational,' 'transportation,' and 'travel' services.

As mentioned above, Turkey has liberalized its foreign trade regime during the 1980s. During this period, emphasis was placed on liberalization of trade in industrial goods. Liberalization of trade in services was not on the agenda in Turkey until the beginning of the Uruguay Round of multilateral trade negotiations. Thereafter it has been discussed mainly within the Undersecretariat of Treasury, the organization responsible for carrying out negotiations on services.

We now turn to consideration of Turkey's commitments first under the General Agreement on Trade in Services (GATS) and thereafter within the context of Turkey-EU relations.

Consideration of the horizontal commitments of Turkey under GATS reveals that Turkey has placed no restrictions on the first two modes of supply, namely cross-border supply and consumption abroad. Regarding commercial presence, the commitments require that the minimum amount of foreign direct investment be $50,000. The investment is to be authorized by the General Directorate of Foreign Capital of the Treasury Undersecretariat as long as it does not exceed $150,000 and by the Council of Ministers for investments above $150,000. Foreign firms are allowed to acquire real estate in Turkey pursuant to Foreign Investment legislation provided that the real estate to be acquired is related to the investor's permitted activities. But foreign controlled enterprises are prohibited from engaging in real estate trading. Turkey restricted the movement of natural persons except for the entry and temporary stay of administrative and technical personnel and service sellers. Furthermore, Turkey declared that professions like medicine and medical services, pharmacology, accountancy, and law for Turkish courts be assigned to Turkish citizens. Finally, Turkey declared in its GATS commitments that sectors such as postal services and telecommunications, railways, cash lotteries, and public utilities be closed to private investment because of public monopolies.[4]

Table 3.14 shows the status of sectoral commitments made by Turkey. A close examination of the commitments reveals the following aspects: (i) Turkey has made commitments in nine out of the twelve service sectors considered under GATS. (ii) The sector "business services" has six sub-sectors. No commitments have been made by Turkey in the cases of "real estate services," "research and development services," and "rental/leasing services without operators." (iii) "Communication services" has five sub-sectors. No commitments have been made by Turkey in the cases of "audio-visual services," and "other services." (iv) "Construction and related engineering services" sector has five sub-sectors. Turkey has commitments in all of them. (v) In the "distribution services" sector, Turkey does not have any commitments. (vi) In the case of "educational services," Turkey has listed commitments in four of the five possible sub-sectors. (vii) In the case of "environmental services," Turkey has listed commitments in four of the five sub-sectors. (viii) The "financial services" sector has two sub-sectors; Turkey has listed commitments in both of them. (ix) The "health related and social services" sector has four sub-sectors; Turkey has commitments in one out of them. (x) The "tourism and travel services" sector has four sub-sectors; Turkey has commitments in two of them. (xi) In the case of the "recreational, cultural and sporting services" sector Turkey does not have any commitments. (xii) The "transport services" sector has nine sub-sectors.

Table 3.14: Specific Commitments of Turkey by Sectors

BUSINESS SERVICES	
Professional services	x
Computer and related services	x
Research and development services	
Real estate services	
Rental/leasing services without operators	
Other business services	x
COMMUNICATION SERVICES	
Postal services	x
Courier services	x
Telecommunication services	x
Audiovisual services	
Other	
CONSTRUCTION AND REL. ENG. SERVICES	
General construction work for buildings	x
General construction work for civil engineering	x
Installation and assembly work	x
Building completion and finishing work	x
Other	x
DISTRIBUTION SERVICES	
Commission agents' services	
Wholesale trade services	
Retailing services	
Franchising	
Other	
EDUCATIONAL SERVICES	
Primary education services	x
Secondary education services	x
Higher education services	x
Adult education	
Other education services	x
ENVIRONMENTAL SERVICES	
Sewage services	x
Refuse disposal services	x
Sanitation and similar ervices	x
Other	x
FINANCIAL SERVICES	
Insurance and insurance related services	x
Banking and other financial services	x
HEALTH RELATED AND SOCIAL SERVICES	
Hospital services	x
Other human health services	
Social services	
Other	
TOURISM AND TRAVEL SERVICES	
Hotels and restaurants	x
Travel agencies and tour operator services	x
Tourist guide services	
Other	
RECREATIONAL, CULT. AND SP. SERVICES	
Entertainment services	
News agency services	
Libraries, archives and useums	
Sporting and other recreational services	
Other	
TRANSPORT SERVICES	
Maritime transport services	x
Internal waterways transport	
Air transport services	
Spact transport	
Rail transport services	x
Road transport services	x
Pipeline transport	
Services auxiliary to all modes of transport	x
Other transport services	
OTHER SERVICES NOT INCLUDED ELSEWHERE	

Turkey does not have commitments in the "internal waterways transport services," "space transport services," "pipeline transport services," and "other transport services" sub-sectors.

Besides commitments under GATS, Turkey is to liberalize its trade in services with the EU. Although the CUD did not include any special arrangements on capital movement, right of establishment, and services, liberalization of service sectors was mentioned for the first time in the document "European Strategy for Turkey" of March 3, 1998, prepared by the European Commission. The regular report from the Commission (1999, 2000) toward accession also emphasised this aspect. The European Council meeting in Helsinki on December 10–11, 1999 stressed that Turkey is a candidate state destined to join the EU on the basis of the same criteria as applied to other candidate states, and that Turkey, like other candidate states, will benefit from a pre-accession strategy to stimulate and support its reforms. The EC-Turkey Association Council of 2000 also emphasised the issue of liberalization of trade in services. In the following, we consider in some detail issues related to the liberalization of financial services, telecommunications, electricity, and natural gas sectors within the context of Turkey-EU relations.

5.1 Financial Services

In the EU, citizens and firms are currently free to invest their money, open accounts, take out loans, issue securities, and buy insurance and securities wherever they choose within the Community, and banks, insurance companies, and security firms are free to offer their services without restriction in all Community countries. An essential requirement for the achievement of this liberal regime involved freedom for Community banks, insurance companies, and security firms to establish branches in all Member States, freedom to offer services throughout the Community, whether or not they have an established presence in each country, and freedom of capital movement. For this purpose the EU harmonized basic standards for supervizing financial institutions and protecting investors, depositors, and consumers, mutually recognized the Supervisory Authorities' competence and the manner in which they apply those standards, and introduced the principle of home country control. The latter principle means that all EC branches of a financial institution established in one Member State will be subject to prudential supervision of the Authorities in its host country and, likewise, the services which it provides throughout the EC will be subject to home country prudential supervision. In the EU, the liberalization of capital movement was progressively achieved according to the EEC Treaty in 1988.[5] In the case of banking, liberalization was achieved with the key legislation enacted after 1977,[6] in the case of insurance services, liberalization occurred after the 1970s,[7] and in the case of securities mainly during the 1990s.[8]

To set the stage for a discussion of Turkish legislative, regulatory and institutional infrastructure for the financial sector, it is useful to briefly consider the developments in the banking sector, since the banking sector in Turkey accounts for about 75 percent of the total financial sector assets and most of the non-bank financial institutions are subsidiaries of banks. The sector has gone through a major structural change as a result of the financial liberalization program that started in the early 1980s. The abolition of directed credit policies, liberalization of deposit and credit interest rates and liberal exchange rate policies as well as the adoption of international best standard banking regulations have accelerated the structural transformation of the banking sector.

During the 1990's problems started to accumulate in the banking sector. There were problems related to duty losses of state banks and public sector deficits. Various governments in Turkey have used the state banks, which had a substantial share in banking sector's total assets, for a number of non-commercial objectives such as agricultural support, income redistribution, and industrial, urban, and physical infrastructural development. The state banks faced unrecovered costs from duties carried out on behalf of the government and they covered their financing needs from markets by borrowing at very high interest rates and at short maturities, leading to increases in interest rates. The direct subsidies to farmers and small business given through the state banks were not shown in the government budget figures, instead they were shown on state banks' balance sheets as performing assets accruing interest income. According to the World Bank (2000) the stock of accumulated receivables of these banks, called 'duty losses,' had reached almost 13 percent of GNP in 1999. In addition to these distortions, the period was characterized by high public deficits as reflected by the relatively high values of the ratio of public sector borrowing requirements (PSBR) to GNP. To finance the PSBRs the country relied on a mix of borrowing and money creation. While reserve money over the period 1990–2000 increased at the average annual rate of 80 percent, the ratio of net public sector debt to GNP rose from 29 percent in 1990 to 61 percent in 1999. The increase in domestic debt stock was even more striking. In 1990, the ratio of net domestic debt to GNP was 6 percent. By 1999, it had increased to 42 percent, including the duty losses. As the high public sector deficits opened the way to high real interest rates, the volatile inflation rates further increased the risk premium on government debt. The real interest rate paid on domestic debt during the period 1992–99 reached the unsustainable level of 32 percent. As a result of these developments private banks found the financing of public deficits increasingly profitable. While in 1990, government domestic securities were equivalent to 10 percent of total assets of domestic banks, this figure increased to 23 percent in 1999. As a result of these developments, the share of government domestic securities in total assets of domestic banks increased considerably. The banks became vulnerable to changes in interest rates. In addition, the 1994 crisis had led the authorities to take drastic measures in order to save the economic system from a collapse. The most controversial of these was the introduction of full (100 percent) state guarantee of deposits. Introduction of full guarantee of deposits was effective in ending the bank rush as well as curtailing drastic shifts in deposits from private banks to state owned banks in 1994. However, the fear of a renewal of the banking crisis prevented the authorities from abandoning this supposedly temporary measure in favor of a reasonable deposit insurance scheme.

At the end of 1999, Turkey embarked upon an ambitious stabilization program, aimed at achieving single digit inflation by 2002. Central to the program were firm monetary and exchange rate policies, set so as to provide a nominal anchor for reducing inflationary expectations, sounder public finance, and wide-ranging structural reforms designed to liberalize the economy. The Central Bank's policy of a pre-determined exchange rate path as a nominal anchor in an environment where the public sector borrowed heavily, and interest rate premiums on government debt exceeded the rate of domestic currency depreciation, meant that it was profitable for banks to fund government bond purchases with foreign borrowing. This led to a sharp increase in foreign currency open position of the private banks. The banks seem to have underestimated the risks inherent in overly extending investments in government paper and in opening foreign exchange positions.

Significant progress was made during 2000, but considerable real exchange rate appreciation and increase in world prices of energy products such as crude oil and natural gas led to widening current account deficits, leading to concerns about the sustainability of the exchange rate regime. A severe banking crisis blew up in November 2000, accompanied by massive capital outflow. An IMF-led emergency package succeeded for a while in normalizing the situation, but developments of February 2001 led to a total loss of confidence in the government's program and a serious run on the Turkish lira. Interest rates sky-rocketed and foreign exchange reserves started to decline rapidly. The government decided to abandon the crawling peg regime. A new stabilization program called "Transition to a Strong Economy" was adopted. With the new program the currency was floated. As a result, banks were hit by capital losses due to a sharp decline in the market value of government securities holdings and capital losses due to a sharp increase in foreign exchange rate and open foreign currency position. The crises led to an uncertain environment. On May 15, 2001 the IMF increased its stand-by arrangement by SDR 6.4 billion. This was added to the SDR 2.9 billion agreed in December 1999 and SDR 5.8 billion offered, under its supplementary reserve facility, in December 2000. In addition, the World Bank has offered an extra two billion dollars for fast disbursement. The new stabilization program, recognizing the unsustainable domestic debt dynamic and the unhealthy structure of the financial sector as the main reasons for the crises, is both ambitious and comprehensive. It aims to strengthen the balance of public finances in a way that will prevent deterioration in the future and carry out extensive restructuring of the banking sector with a view to creating a stable and sound link between the real and banking sectors. As a first step in restructuring state banks, the Treasury provided floating rate notes, securitizing the duty losses, and strengthened their capital base. The state banks will no longer be forced to run duty losses.[9] Any support provided by state banks will be budgeted. Once the financial restructuring is completed, state banks will be required to comply fully with all banking regulations. On the other hand, the private banks, which had incurred significant losses in the aftermath of the November 2000 and February 2001 crises, were either taken over by the Savings Deposit Insurance Fund (SDIF) or asked to strengthen their net worth and balance sheet structure. Furthermore, the capital base of banks under management of SDIF has been strengthened by injection of government funds.[10] These are considerable achievements, but the country still faces a tough job implementing what will prove to be a painful and politically unpopular program of spending cuts and structural reforms.

As stated above, an important pillar of the new stabilization program consists of efforts to eliminate the distortions in the financial sector and to adopt regulations to promote an efficient, competitive, and sound banking sector. The government aims to restructure the state and SDIF banks, strengthen the private banks, and strengthen the legal and regulatory environment.

Table 3.15, showing basic data on the Turkish banking sector, reveals that in the year 2000, private domestic banks accounted for about 47 percent of the total assets of the banking sector with the five largest banks accounting for 32.6 percent of total assets. While the share of foreign banks in total banking assets amounted to 5.4 percent, the share of state banks was 34.2 percent, and the share of banks managed by the SDIF was 8.5 percent. The table further reveals that foreign banks, in terms of their shares in total credits and deposits, remain insignificant. Thus foreign banks are less active in collecting deposits and extending loans, but play a relatively larger role in terms of offering financial services that are accounted under off-balance sheet items.

The above considerations confirm the view that institutional development is of central importance to the proper functioning of financial markets. The existence of competent supervisory authorities, a regulatory framework, and legal and institutional infrastructure are crucial components for the maturation of financial markets.[11] Recognizing the need for development of many of these elements, the Parliament passed a new banking law in 1999. Until the enactment of this law, the regulatory/supervisory authority for the banking system was, mainly, the Undersecretariat of the Treasury, which exercized its supervisory authority through the Board of Sworn Bank Auditors, responsible for the on-site examination of banks. The Central Bank supervized the financial positions of the banks through its off-site surveillance system. Major Treasury decisions on banks required the approval of the State Minister in charge of the economy. But this rule subjected banking supervision to political intervention. In addition, prudential regulations in Turkey were lax and poorly enforced because of the fragmented supervisory systems and supervisory forbearance.

Table 3.15: Turkish Banking Sector (Dec. 2000)

	Total Assets (US$ million)	Share in Sector (%)	Total Loans (US$ million)	Share in Sector (%)	Total Deposits (US$ million)	Share in Sector (%)
State Banks	53,151	34.2	13,727	27.0	41,095	40.3
Private Banks	73,588	47.4	27,753	54.5	44,349	43.5
Foreign Banks	8,403	5.4	1,438	2.8	3,300	3.3
SDIF Banks	13,192	8.5	3,311	6.5	13,141	12.9
Development & Inv. Banks	6,902	4.4	4,701	9.2	0	0.0
Sector Total	**155,237**	**100**	**50,931**	**100**	**101,884**	**100**

Source: Banking Regulation and Supervision Agency (2001).

Capital adequacy rules, regulations on bank-loan exposure to large groups, and rules on loan classification have often not been enforced. The banking law of June 1999 mandated the creation of a new independent Banking Regulatory and Supervisory Agency (BRSA). The BRSA takes over bank regulation and supervision responsibilities previously fulfilled by the Treasury and Central Bank. Through this body, supervision of banks was pulled out of the domain of daily politics. The limits to single borrower and to related parties were tightened, banks' exposure to non-financial participations was limited, and minimum capital requirements were increased. Furthermore, the new Banks Act introduced higher minimum capital requirements for new banking licenses, and urged the implementation of operational policies in line with the Basel Accord. The BRSA became fully functional in September 2000. It declared that prompt action will be taken against any bank not observing the rules. Finally, the Banks Act of June 1999 was amended in December 1999 and May 2001.

According to the Banks Act of June 1999, the establishment of a bank founded as a joint stock company, or the opening of the first branch of a bank based in a foreign country was subject to authorization by the Council of Ministers upon a proposal to be made based on a resolution adopted by the BRSA. With the amendment of the Banks Act in December 1999 the BRSA was made the sole authority in granting permission for the establishment of a bank. After receiving the permission to found a bank or open a branch office in Turkey, additional permission is required for accepting deposits or engaging in other banking operations from the BRSA. Banks are free to open additional branch offices provided they comply with the principles set by the BRSA and providing that they have achieved the standard ratios introduced. If necessary, the BRSA may subject the opening of branch offices by banks to permission. Any bank to be founded must be founded as a joint stock company, have founders who are of sufficiently good repute, and have sufficient experience in the banking sector; they must have capital, paid in cash, which shall not be less than TL 20 trillion (US$14.3 million).[12] Banks established abroad that are willing to open branch offices in Turkey must have the same amount of paid in capital allocated to Turkey. Any amendments to the Articles of Association of a bank shall require the approval of the BRSA.

The 1994 crisis led the authorities to introduce full (100 percent) state guarantee to deposits. But this decision led the banks to take higher risks and stimulated moral hazard. In June 2000, the government introduced a plan for the gradual reduction of deposit insurance. Deposit insurance in 2000 was limited to TL100 billion (US$160,405), and in 2001 to TL50 billion (US$36,000). The deposit insurance limit will be brought into compliance with applicable EU directives by 2002.[13] But the change was introduced at a very late stage. After the crisis of November 2000 and February 2001 the government as of August 2001 had to transfer TL18 quadrillion (US$13 billion) of resources to the SDIF banks.

With the latest amendments to the Banks Act and changes in regulations banks are required to maintain and keep an eight percent capital adequacy standard ratio, on a consolidated (applicable for banks and their financial subsidiaries combined) and unconsolidated basis in order to ensure that banks maintain adequate capital against losses which may result from existing and potential risks. The consolidated financial reporting requirements allow quarterly verification of banks' compliance with the consolidated capital adequacy requirement.

When evaluating the capital adequacy ratio, banks are required to take capital charges for market risks such as foreign exchange risk, interest rate risk, and securities price fluctuation risk.[14] The maximum open foreign exchange position was reduced from 30 to 20 percent as of June 2000. Furthermore, the government requires banks to establish internal control and risk management systems.[15] The government has also taken steps to correct the flaws concerning the weak loan loss provisioning rule and the lenient large exposure and connected lending limits. With the amendments to the Banks Act, tighter limits were imposed on both on- and off-balance sheet commitments to related parties and especially to companies belonging to the same group.[16] Bank shareholders and managers became personally liable for the mismanagement and abuse of bank resources. The above considerations reveal that Turkish prudential requirements as of 2001 are in general in conformity with those in the EU regarding capital adequacy standards, loan classification, and provisioning requirements, limits on large exposures, limits on connected lending and requirements for liquidity and market risk management. What is needed now is strict enforcement of the rules by the BRSA to all public and private banks in Turkey.[17]

Turning to the insurance sector we note that until 1987 the regulatory framework of the insurance industry was based on the Law of Inspection and Supervision of Insurance Companies enacted in 1927. The system operated under fixed premium rates and imposed various restrictions on insurance and reinsurance activities. An important change in the insurance industry took place after major amendments to the Law of Inspection and Supervision of Insurance Companies in 1987, which lifted restrictions on new entries. The fixed premium rate practice was abandoned in 1990.

Currently, Turkey places no limitations on national treatment, but there are restrictions on market access. The insurance or re-insurance company must be founded as a joint stock or mutual company. In order to found an insurance or reinsurance company, or open a branch of an insurance company based in a foreign country, prior permission has to be received from the State Ministry for Economic Affairs. After receiving prior-permission, the company must obtain the operation license from the Undersecretariat of Treasury. Establishment is subject to a minimum paid-in capital requirement. The acquisition or transfer of shares representing 10, 20, 33, or 50 percent of the capital or higher is subject to the authorization of the Treasury Undersecretariat. Engaging natural persons in brokerage business or establishing an insurance and reinsurance broker company, or opening a branch of a foreign insurance and reinsurance broker company in Turkey is subject to prior permission and obtaining an operation license from the Treasury Undersecretariat. Such a firm must be founded in the form of a joint-stock or limited liability company, and must possess the minimum required paid in capital. Finally, we note from Table 3.16 that foreign insurance companies until recently have not been very active in the Turkish insurance sector.

In the case of the securities market, we note that the Capital Market Law (CML) was enacted in 1981 in order to promote and supervize the securities markets. In the following year, the Capital Market Board (CMB) was established, and it became operational in 1982 as the main regulatory body responsible for both promotion and supervision of the securities markets the CMBs authority over secondary markets was further strengthened by a decree of 1983. The Istanbul Stock Exchange (ISE) became operational in 1986. In October 1990, the off-exchange and odd-lot equity market was established, and in June 1991 the bonds and bills market was introduced. In January 1992, the ISE-Settlement and Custody Company was established, which later assumed bank status. In January 1993, rights coupon and new shares markets and in February 1993 repo transaction were allowed in the ISE.

Table 3.16: Some Important Figures Related to Insurance Companies in Turkey, 1999

	Turkish (million $)	Share (%)	Foreign (million $)	Share (%)	Total (million $)
Direct premiums	1,710.6	93.0	128.6	7.0	1,839.2
Premium receivables	570.4	94.2	35.0	5.8	605.5
Securities portfolio	1,258.8	93.8	82.5	6.2	1,341.3
Participation	112.1	99.8	0.2	0.2	112.3
Fixed Assets	261.7	96.4	9.8	3.6	271.4
Assets	3,374.4	94.1	213.3	5.9	3,587.7
Profit	256.7	94.1	16.1	5.9	272.8
Loss	23.2	69.5	10.2	30.5	33.4
Net worth	467.7	93.5	32.4	6.5	500.1

Source: Undersecretariat of Treasury (1999).

In April 1993, the CMB, by regulating margin trading, allowed short selling and securities lending and borrowing among authorized ISE members. Currently, the legal framework in the securities market is based on the CML enacted in 1981, amended in 1992 and in 1999, and on the Decree by-Law No. 91, enacted in 1983, which constitutes the regulatory base for secondary markets. The main objective of the regulators of the CMB is to maintain the operation of capital markets in a secure transparent and stable manner. To this end, the CMB uses to a large extent the standards of the EU in its regulatory framework. With Law No. 4487 of December 1999 amending the CML, the CMB is made responsible for determining the regulations for foreign security firms. These regulations have not been issued yet. The legislation prevailing currently restricts to a certain extent the entry of foreign security firms into the sector. The CML defines the capital market institution as intermediary institutions, investment companies, mutual funds, and other institutions. Intermediary institutions are required to obtain a license from the CMB in order to deal in securities transactions. The CMB determines the minimum conditions for authorization and examines each application for a license based on these requirements. In Turkey, banks are required to establish separate legal entities to carry out intermediary capital market activities. Thus, EU banks can carry out intermediary activities in Turkey so long as they establish intermediary institutions according to Turkish regulations. On the other hand, the current regulations require that representatives and assistant representatives of members of the Istanbul Stock Exchange are Turkish citizens. Furthermore, foreign institutional investors are allowed to sell mutual funds. The principles of registration with the CMB and sale of the units of foreign mutual funds are regulated by the 'Communique on Principles regarding Registration with the Board and Sale of Foreign Mutual Funds' of 1998. Finally, foreign rating institutions recognized by the CMB are allowed to engage in rating activities in Turkey without receiving permission from local authorities.

The above considerations reveal that the Turkish financial reform program was quite successful in transforming the Turkish financial system into a modern one. The objective of the legislative and regulatory reform was to bring the regulatory and supervisory regime for the Turkish financial sector up to the level of international practice in line with EU standards. The objective has been achieved to a large extent in the case of banking and securities, but more needs to be done in the case of regulation of insurance services. Recently, Turkey prepared a draft insurance bill creating an independent Regulatory and Supervisory Agency as in the case of banking. With the new law and introduction of regulations issued by the Regulatory and Supervisory Agency that will be established, the remaining legal regulations not in conformity with EU regulations will be brought in harmony with the EU standards. In the case of banking, a major issue that needs to be resolved concerns the privatization of state banks. Recently, Turkey has decided to privatize the largest two state banks within three years, to withdraw the banking license of another state bank, and to resume the privatization process of another large state bank as soon as market conditions allow.[18]

As mentioned above, citizens and firms in the EU are free to invest their money, open accounts, take out loans, issue securities and buy insurances and securities wherever they choose within the Community, and banks, insurance companies, and security firms are free to offer their services without restriction in all Community countries. With Turkish accession to the EU, the same conditions will also apply for Turkey. Competition in the Turkish financial sector will increase as Turkey recognizes the Supervisory Authorities' competence of EU Member States and introduces to its legislature the principle of home country control. Competition will lead to lower prices for consumers as well as to a larger variety of financial instruments. Some of the Turkish firms will benefit from larger markets by concentrating on activities they have a comparative advantage in. Other firms may be forced to merge with foreign firms or to exit from the market. Adjustment will certainly be costly. Major difficulties will be faced by Turkey with accession to the EU unless problems with the state banks and banks under management of the SDIF are resolved by then and regulations in the financial sector strictly enforced.

5.2 Telecommunications Services

In Turkey, the telecommunications industry has been dominated by Turk Telecom, a national monopoly with exclusive rights to all fixed-line voice operations. In addition, cable services have been provided by Turk Telecom, which has also been responsible for radio and television transmitters. Turk Telecom had a monopoly over the provision of international calls and prices for local calls though fixed lines were cross-subsidized by national long-distance and international calls. Recent reforms since the early 1990s have led to the introduction of four new mobile telephone companies and a series of private companies providing value-added services such as internet access and cable television.

Table 3.17 provides information on international telecommunication comparators. From the table, it follows that Turkey, during 1999, had 18 million telephone lines and that the telephone lines over the period 1995–99 grew at the compound annual growth rate (CAGR) of 8.1 percent. While telephone lines per hundred inhabitants amounted to 27.8 in Turkey, 37.1 in Hungary, and 26.3 in Poland, waiting time for telephone lines was 0.4 years in Turkey, 0.2 years in Hungary, and 1.5 years in Poland. Since competition is made more difficult by lower degrees of digitalization, we note that Turkey has 84 percent digital switches, while the share is 60.4 percent in Poland. Regarding tariffs we note that while connection and monthly subscription costs were lowest in Turkey, the charges per call in Turkey did not differ very much from those in EU countries.

Recognizing that competition is the best way to ensure efficient operation and sufficient technological innovation to keep up with the pace of global change, that regulation is vital, and that privatization combined with the establishment of conduct regulation has positive impact on performance, the Turkish Parliament in January 2000 approved legislation to reform the telecommunications sector.[19] The new legislation initiated the process of deregulating the sector over the medium term. According to the bill, fixed line liberalization should have occured by the end of 2003, and mobile, and value-added services are to be made truly competitive. A regulatory authority called the Telecommunications Authority (TA) has been established, composed of five members appointed for five years by the Council of Ministers. Concessions and licenses are to be issued by the Ministry of Communications while preparation of the documents has been delegated to the regulator.

Pricing will be a function of the regulatory body. In the meantime the new regulatory board has been appointed and the decree setting up the authority was published in August 2000. The legislation has transformed Turk Telekom into a joint-stock company in order to open its capital to private participation. On May 12, 2001 the Turkish Parliament passed the new Telecommunications Act, which aims to end state monopoly on land-line telecom services by privatizing most of Turk Telecom before December 31, 2003.[20]

Table 3.17: Telecommunications Comparators

	Main Telephone Lines			Waiting	Percent of Digital Switches	Telephone Tariffs		
						Residential		Local
	Total (k) 1999	CAGR (%) 1995–99	Per 100 Inhabitants	Time (years) 1999	in Main Telephone Lines (%)	Connection (US$) 1999	Monthly Subscription (US$) 1999	Call (US$) 1999
Turkey	18,054.0	8.1	27.8	0.4	84.0	30	4.8	0.10
Germany	48,500.0	3.7	59.0	-	100.0	47	11.6	0.11
France	34,100.0	1.3	58.2	-	98.0	49	12.6	0.12
Portugal	4,229.8	3.8	42.3	0.2	100.0	76	11.1	0.10
Spain	16,480.4	2.2	41.0	-	86.5	158	10.7	0.09
Hungary	3,725.0	14.6	37.1	0.2	77.6	142	6.4	0.13
Poland	10,175.2	15.4	26.3	1.5	60.4	141	4.6	0.07

Source: International Telecommunications Union (2001).

The expiry date for Turk Telecom's monopoly is set as the date when publicly-owned shares of Turk Telecom fall below 50 percent. The government is to keep a golden share. According to the law, 99 percent of all outstanding shares can be sold to both Turkish and foreign investors, but the share of foreigners cannot exceed 45 percent of the outstanding shares. Furthermore, according to the new bill, concessions and licenses are to be issued by the regulatory authority.

With the latest amendments to the Telecommunications Act, the main responsibilities of the TA consists of licensing operators in the telecommunications sector, setting administrative, financial, and technical regulations, performing follow-up functions of these regulations, issuing technical standards, testing the equipment in accordance with these standards, and implementing administrative and financial measures to those who break the rules and regulations. The TA has recently published the tariffing regulation, the key provisions of which are based mainly on EU Directive 98/10/EC. According to this, regulation tariffs will be cost-based and a "price cap" formula will be applied for the services supplied by the incumbent operator, Turk Telecom. The key provisions of the current licensing regulation are based on Licensing Directive 97/13/EC. Finally, we note that studies are ongoing at TA to prepare the interconnection regulations, including roaming in accordance with the related EU directive, the numbering regulation in accordance with Interconnection Directive 98/61/EC, and changing the licensing regulation in order to include greater transparency to the licensing system and clarify the licensing system for value-added services.

Since its inception in the mid-1980s, EU telecommunications policy has focused on two main objectives: economic efficiency and guarantee of universal service. The achievement of these aims has been pursued through the application of a set of complementary principles: market liberalization and harmonization of conditions for a common regulatory framework.[21]

The above considerations reveal that the Turkish telecommunications reform program has been quite successful in transforming the Turkish telecommunications system into a modern one. The objective of the legislative and regulatory reform was to bring the regulatory and supervisory regime for the Turkish telecommunications sector up to the level of international practice, in line with EU standards. The objective has been achieved to a large extent, but more needs to be done. Areas that need to be addressed include enhanced structural separation to ensure fair and open competition for access to fiber-optic cable infrastructure and mobile access to the fixed network. In addition, cable television operations should be shifted out of Turk Telecom. In order to liberalize its telecommunications sector within the context of Turkey-EU relations, Turkey will have to introduce full competition in telecommunications.

In particular, Turkey will have to adopt and implement the European Union legislative measures centering on liberalization of all telecommunications services and infrastructures, adoption of open network provision measures to the future competitive environment, maintenance and development of minimum supply of services, and the definition of common principles for financing the universal service. Once the sector is introduced to full competition, we expect a larger variety of telecommunications services to be offered at lower costs and the quality of services offered currently to increase.

5.3 Electricity and Natural Gas

In 1999, Turkey had an installed power-generating capacity of about 26,100 MW (40 percent hydro and 60 percent thermal). While electricity consumption has been growing at an annual average of 9 percent over the last decade, reaching 113 TWh in 1999, the demand for electricity is forecasted to grow at an annual rate of 8 to 10 percent over the next ten years. This growth will require annual investment of about US$3 billion in generation, transmission, and distribution. It is emphasized that the transmission and distribution losses are relatively high in Turkey. These losses have risen lately to about 22 percent of generation. The Turkish electricity sector is dominated by state-owned enterprises. The two largest firms are TEAS, the state-owned generation-and-transmission company, and TEDAS, the state-owned distribution company. In the sector, privatization has been widespread for some time. There are privately owned firms which have entered the industry through build-operate-transfer (BOT) or auto-generator schemes. They account for about 21 percent of electricity generation. In addition, there are four private distribution companies active on the Asian side of Istanbul, Kayseri, Adana, and Antalya. Recently, five build-operate-own (BOO) contracts for electricity generation were competitively bid, and operating rights contracts (TOORs) have been awarded for 8 thermal plants and 14 distribution regions.

Although privatization can be thought of as a legal transfer of assets from the government to a private operator, many of the benefits of privatization come with the transfer of risk. When private companies bear risk, privatization can be expected to lead to efficiency gains. Under the current regulations in Turkey, private owners in the electricity sector bear construction and operating-cost risks. The private operator signs a long-term power purchase agreement with the state-owned generation enterprise, in which the latter commits itself to buy the output of the plant for a period of, say, 20 years at a fixed price in foreign currency. While the price has ranged between eight and nine US cents per KWh for the first five to ten years of operation in BOT projects, the BOO projects tend to have lower prices. This contract, guaranteed by the Treasury, assures the investor that the project will be profitable, irrespective of future demand for power. As a result, the government retains the commercial risks.

On the other hand, EU electricity policy has focused on the achievement of one, common, competitive European electricity market as part of its single market program. Directive 96/92/EC, setting the rules of the internal market in electricity, was adopted on December 19, 1996 and became effective from February 1997. The Directive establishes common rules for the generation, transmission, and distribution of electricity. In generation, member states must adopt one of two procedures for building new capacity: authorization or tendering. Under the authorization procedure, companies may offer to build new power plants under an open and impartial procedure that decides whether they should be allowed to go ahead. Under the tendering procedure, a designated authority may decide what new capacity is required and solicit tenders, which are then accessed by an impartial procedure. In transmission, the Directive rules that each member state must specify a transmission system operator, whose job is to ensure dispatch of the plant according to transparent and fair rules that do not favor the incumbents. In distribution, the system operation must be on the same non-discriminatory basis as transmission. The rules on access to the transmission and distribution networks specify three types of arrangements: negotiated third-party access, regulated third-party access, and the single-buyer model. These arrangements serve the purpose of achieving competition in the electricity sector. Member states are required to open their markets by 25 percent in 1999, 28 percent in 2000, and 33 percent in 2003. It is estimated that by 2007 over 70 percent of the market will be competitive.

In Turkey, the government has recently passed a new Electricity Law.[22] With this law the government is introducing a market model as in the EU that will transfer most of the task of supplying and distributing electricity and the associated market risks to the private sector, eliminate the need for additional state-guaranteed power purchase agreements, and minimize costs through competitive pressures on producers and distributors along the EU model. The government will largely withdraw from the electricity generation and distribution businesses. Electricity generation companies will sign contracts for power directly with distribution companies, without government guarantees. The government's future role will be largely confined to determining sector policy, owning the transmission system, and setting up an independent regulatory body to make sure that the rules are respected and that prices are competitively determined. Once the new Electricity Law is implemented, the regulatory and supervisory regime for the electricity sector will be brought up to the level of international practice in line with EU standards. But note that with Turkish accession to the EU, Turkey will have to introduce full competition in electricity. In particular, Turkey will have to adopt and implement all of the EU rules for generation, transmission, and distribution of electricity and also the rules on access to the transmission and distribution networks.

Turning now to the natural gas sector, we note that the market structure was based on monopoly provision. BOTAS, the state owned enterprise, had a monopoly on imports of gas. It was the only transmission company. Distribution and supply were provided by local companies that were owned either by the municipalities or by BOTAS. The 1998 European Gas Directive provides for the gradual opening of the natural gas market in the EU to competition over a ten-year period to reach 33 percent of total gas consumption. Recently the government in Turkey passed a new Gas Law (May 2, 2001). With this law, the government plans to establish a competitive market as in the EU and encourage private-sector participation through a phased policy. As in the case of electricity, an independent regulator for the gas industry will be established. This authority will determine the transmission and distribution access rules and tariffs and the methodology for the regulation of retail prices.

5.4 Effects of Liberalization of Services

Messerlin (1990), when studying the effects of liberalization of services in the EU, mentions that gains from liberalization of services come from three sources: lower prices for consumers, larger markets, and new comparative advantages revealed by more competitive firms. Regarding the price effects of liberalization, he emphasizes that during Britain's unilateral liberalization of the early 1980s liberalized airlines, banking, and telecommunication experienced substantial price decreases. In 1986, average British air charter fares were lower by 10 to 30 percent than the comparable scheduled fares, and in 1989 Mercury's phone tariffs were on average 30 percent lower than those of British Telecom. Emerson and others (1988) report that liberalization of services in Europe will lead to price decreases of about 10–20 percent in financial services, 10 percent in air transport, 5 percent in road transport, and 3 percent in professional services. Similar results are reported in the 'Single Market Review' study of the European Commission (1997). Once the extent of price changes are determined, the effects on sectoral value addeds in the economy could be determined using the effective rate of protection calculations as in Hoekman and Djankov (1997).

In the case of Turkey we note that, by liberalizing its trade with the EU in services, Turkey will be part of the European single market. Turkey will produce and export those services in the production of which it has comparative advantage. With the increase in market size and elimination of trade barriers, integration will lower prices by increasing competition and spurring efficiencies via better exploitation of scale economies. A larger variety of services will be offered. In cases where larger Turkish firms operate at more efficient scale and compete more effectively, liberalization will lead to higher sales and higher employment. But in other industries, restructuring may be accompanied by a sizeble re-allocation of employment as firms cut back on redundant workers and close inefficient plants and offices. In those sectors the number of firms will probably be reduced through mergers and bankruptcies. Thus, integration will remove the distortions in the price system and improve the business climate for private sector firms, which in turn will boost the allocative efficiency of the Turkish economy. As a side effect, this heightened efficiency will make Turkey a better place to invest. Investment will increase and hence foreign direct investment. Thus, the allocative efficiency gains from integration will be boosted by induced capital formation. While investment increases above its normal level, the Turkish economy will experience a growth effect. All this means improved material well-being for Turkish people in the long term.

In the case of financial services, we note that competition in the Turkish financial sector will increase as Turkey recognizes the Supervisory Authorities' competence of EU Member States and introduces to its legislature the principle of home country control. Furthermore, Turkey, by following the prudential rules of the EU and enforcing those rules, will avoid the occurrence of future financial crises. Furthermore, by opening its telecommunications, electricity, and natural gas markets to full competition, Turkey will not only attract private capital and hence foreign direct investment into those sectors, but also will benefit from increased competition. In these cases we may expect that a larger variety of services will be offered at lower costs and that the quality of the services will increase. This in turn will enhance the competitiveness of Turkish economy.

6. Measures Affecting Exports

In 1985 Turkey joined the GATT Subsidies Code, agreeing to eliminate export subsidies by 1989. Recently, Tűrkey has eliminated most export incentives. Within this context, GATT legal subsidies such as research and development subsidies and subsidies to facilitate the adaptation of plants to new environmental regulations were introduced in 1995. The various types of export subsidy schemes in use during the year 2000 can be summarized under cash subsidies and others.

Cash subsidies are extended to a number of agricultural products and processed agricultural goods. Table 3.18 shows the subsidies extended to these commodities. From the table, it follows that subsidies are quite substantial for various commodities, but that the applied subsidy rates cannot exceed a specified maximum rate. These rates are set between 10 and 20 percent of the value of exports. The commodities under subsidy cover 25.8 percent of total exports from the 'food' sector, and 3.5 percent of the exports from the 'agricultural raw materials' sector.

Other subsidies consist of duty concessions, export credits, and export insurance, subsidies to R&D activities, subsidies to projects related to technical barriers, subsidies to trade fairs, market research, educational activities, trade marks, intellectual property rights, and employment subsidies. Under duty concessions, exporters are exempt from a number of duty concessions such as the stamp tax, and exporters can import duty free under the inward-processing regime scheme. Preferential export credits are extended by the Turkish Eximbank, which in 1999 provided support for 26 percent of total exports. On the other hand, R&D projects that aim to increase the productivity in export industries can be subsidized up to 50 percent of the cost of the project. Furthermore, projects related to technical barriers can be subsidized up to 50 percent of the cost of the project, and subsidies are provided to export promotion activities of firms directed to the participation in trade fairs. According to a government decision of 1997, subsidies can be provided for the contracting of market research by exporters. Subsidies can also be provided for the organization of educational activities such as seminars and conferences by exporters. In addition, the government subsidizes medium-and-small scale enterprises for their hiring of skilled personnel. The aim is to increase the productivity of the exporters concerned. Furthermore, Turkey subsidizes activities related with the promotion of trademarks, opening of branch offices in foreign countries, patents, and industrial designs.

In Turkey, the exportation of certain commodities is subject to registration, and the exportation of some other commodities is prohibited for various reasons including environment, health, or religious reasons. All other commodities can be exported freely. Exporters are required to register with the Exporters Association and their local Chamber of Commerce. A fee of 0.05 percent of the f.o.b. value of exports is charged as a service commission. According to the regulations of the export regime, export prohibitions have been imposed on commodities such as game and wild animals, flower bulbs, ozone depleting substances, wood and wood charcoal, antiques and archaeological works, and grapevine, fig, hazelnut, pistachio, and olive plants.

Turkey in general does not apply export quotas. But Turkish exporters of certain textiles and clothing products are faced with quotas on the US and Canadian markets. Turkey does not auction its quotas. Quotas have been allocated mainly on the basis of past performance.

7. Foreign Exchange Regime

As mentioned above, foreign exchange operations and international capital movements were entirely liberalized in 1989. In line with the full convertibility of the Turkish lira, in 1990 banks were left completely free in determining exchange rates in their operations. In this market, the Central Bank intervenes through open-market operations to smooth out large fluctuations in real exchange rates.

Table 3.18: Cash Subsidies

HS	Commodity	Cash Subsidies	Maximum Subsidy Rate	Exports in 1999 ($1000)
0207	Meat and edible offal of poultry (excluding 02071391, 02071399, 02071491, 02072691, 02072699, 020734, 02073591, 02072791, 02072799, 02073599, 02073681, 02073685, 02073689)	$199/tonne	20%	6,680
040700	Birds eggs, in shell, fresh, preserved or cooked	$7/1000units	10%	16,283
060310	Fresh cut flowers and flower buds of a kind suitable for bouquets	$ 285/tonne	20%	11,886
070190	Potatoes	$ 20/tonne	15%	14,480
070310190011	Onions	$ 17/tonne	15%	19,460
0710	Vegetables (uncooked or cooked by steaming or boiling in water) (excluding 071010)	$ 106/tonne	20%	20,347
0712	Dried vegetables, whole, cut, sliced, broken or in powder	$ 370/tonne	10%	16,774
0811	Fruits and nuts, uncooked or cooked by steaming or boiling	$ 92/tonne	20%	29,459
1509	Olive oil (including 151620910014 and 151620980011)	$ 200/tonne	10%	166,335
1604	Prepared or preserved fish	$ 210/tonne	10%	29,079
1806	Chocolate and other food preparations containing cocoa	$ 110/tonne	10%	59,217
190530	Sweet biscuits; waffles (including 19059040, 19059045)	$ 110/tonne	10%	75,684
1902	Pasta	$ 73/tonne	10%	9,984
2001, 2002, 2003	Vegetables, fruits, nuts and other edible parts of plants,	$ 55/tonne	20%	488,334
2004, 2005, 2006	Tomatoes prepared or preserved, mushrooms, truffles,			
2008	Other vegetables prepared or preserved. Fruits, nuts, and other edible parts of plants (excluding 200811, 20081911, 20081913, 200819190014, 200819190039, 200819190049, 20081951, 20081959, 20081993, 20081999, 200819950014, 200819950039, 200819950049)			
2007	Jams, fruit jellies, marmelades, fruit or nut pureee	$ 53/tonne	20%	39,674
2009	Fruit juices (excluding 200990)	$ 168/tonne	20%	68,343

Source: Undersecretariat of Foreign Trade, (2000).

Resolution number 32, which became effective on August 11, 1989, sets the detailed exchange control regulations. According to this resolution, residents and non-residents of Turkey are free to send Turkish currency abroad through banks and certain private finance institutions. Banks and private finance houses must notify the Turkish Central Bank of any transfers abroad that are in excess of $50,000. Turkish travelers are permitted to carry up to $5,000 with them when traveling abroad, and non-residents are free to make payments, collections, and deposits in Turkish currency. Residents of Turkey are free to export, through banks and private finance institutions, foreign currency cash capital up to an amount of $5,000,000 in order to invest outside the country or to establish companies, participate in companies, or open branches in order to engage in commercial activities. Securities may freely enter and leave the country. Non-residents can transfer out of Turkey the income and the sale proceeds from real estate properties that they have purchased. Residents of Turkey are free to obtain cash, and non-cash credit from outside the country and to make use of such credit through banks and private finance institutions. Banks are free to issue letters of credit, guarantees, and surety on behalf of residents and non-residents of Turkey in favor of non-residents. In addition, banks are free to issue letters of credit, guarantees, and surety denominated in foreign currency on behalf of residents and non-residents of Turkey in favor of residents for international requests for tenders conducted in Turkey.

8. Conclusion

After pursuing inward-oriented development strategies for fifty years, Turkey switched over to outward-oriented policies in 1980. The policy of further opening the economy was pursued with the aim of integration into the EU. By now, all industrial goods circulate freely between Turkey and EU. No quotas or tariffs are imposed on imports of industrial goods. Turkey is implementing the Community's Common Customs Tariff on imports of industrial goods from third countries, and has adopted most of the preferential trade agreements the EU has concluded over time. On the other hand, in 1985 Turkey joined the GATT Subsidies Code, agreeing to eliminate export subsidies by 1989. Within this context, in 1995 Turkey introduced GATT legal subsidies such as research and development subsidies and subsidies to facilitate the adaptation of plants to new environmental regulations, and eliminated all of the GATT-inconsistent export incentives that had been used extensively during the 1980s. Furthermore, foreign exchange operations and international capital movements were liberalized entirely in 1989. These are considerable achievements. But liberalization of trade up to 2001 was restricted to industrial goods. Since agriculture formed 14.1 percent and services 64.3 percent of GDP during 1999 it can be stated that liberalization of trade has not covered 78 percent of GDP.

The challenge for Turkey is to liberalize its trade in agricultural commodities and services.

After liberalization of trade in agricultural commodities and services, Turkey will produce and export those goods and services in the production of which it has a comparative advantage. Liberalization will remove the distortions in the price system, which in turn will boost the allocative efficiency of the Turkish economy. As a side effect, this heightened efficiency will make Turkey a better place to invest. Investment will increase and hence also foreign direct investment. Thus the allocative efficiency gains from liberalization will be boosted by induced capital formation. While investment increases above its normal level, the Turkish economy will experience a growth effect. All this means improved competitiveness of Turkish products.

Notes

1 See Safadi (1998) and Safadi and Togan (1999).

2 The three-year Stand-by Credit for Turkey was approved by the IMF on December 22, 1999.

3 Law numbered 4457 of December 4, 1999.

4 In the meantime, telecommunications, electricity, and natural gas sectors have been liberalized as discussed in more detail in sections 5.2–5.3.

5 See the Council Directive 88/361/EEC for the implementation of Article 67 of the Treaty.

6 In the case of banking, the key EU legislation consists of the 1977 First Banking Co-ordination Directive (77/780/EEC), the 1989 Second Banking Co-ordination Directive (89/646/EEC), the 1989 Solvency Ratio Directive (89/647/EEC), 1989 Own Funds Directive (89/299/EEC), the 1992 Monitoring and Control of Large Exposures of Credit Institutions Directive (92/121/EEC), the Deposit Guarantee Scheme Directive (94/19/EC), and the 1991 Money Laundering Directive (91/308/EEC).

7 In the case of insurance services the key EU legislation consists of the 1964 Reinsurance Directive (64/225/EEC), the First Non-life Insurance Directive (73/239/EEC), the First Life Insurance Directive (79/267/EEC), the Second Non-life Insurance Directive (88/357/EEC), the Second Life Insurance Directive (90/619/EEC), the Insurance Accounts Directive (91/674/EEC), the Third Non-life Insurance Directive (92/49/EEC), and the Third Life Insurance Directive (92/96/EEC).

8 In the case of securities services, the key EU legislation consists of the 1993 Investment Services in the Securities Field Directive (93/22/EEC), the 1993 Capital Adequacy Directive (93/6/EEC), the 1997 Investor-compensation Directive (97/9/EEC), the 1985 UCITS Directive (85/611/EEC), the 1980 Listing Particulars to be Published for the Admission of Securities Directive (80/390/EEC), and the 1989 Insider Dealing Directive (89/592/EEC).

9 With the bill issued in the *Official Gazette* on July 3, 2001, 97 previously issued Council of Minister decrees regarding the duty losses have been abolished.

10 During the period 1997–2001, 18 banks have been taken over by SDIF.

11 The legal infrastructure serves to establish and enforce property rights and contracts, as well as creditor and shareholder rights. An effectively functioning legal system based upon the rule-of-law is a must for a sound financial system. Institutional infrastructure encompasses the accounting and auditing practices. Effective financial regulation requires rigorous accounting and auditing standards.

12 According to the 1977 First Banking Co-ordination Directive (77/780/EEC) and the 1989 Second Banking Co-ordination Directive (89/646/EEC), any bank to be founded in the EU must have an initial capital of at least ECU 5 million, and have founders who are of sufficiently good repute and have sufficient experience in banking sector. There must be prior consultation with the competent authorities. Thus, Turkish regulations on the establishment of banks are in conformity with EU rules.

13 According to the Deposit Guarantee Scheme Directive (94/19/EC), the threshold set in the EU is 20,000 Euro.

14 Banks were asked to satisfy the capital adequacy requirement on an unconsolidated basis by January 1, 2002 and on a consolidated basis on July 1, 2002.

15 Banks were required to establish an internal control and risk management system by January 1, 2002.

16 Since bank managers may attempt to under-report the size of their bad assets and overstate their capital, it is essential to introduce internationally recognized accounting and auditing standards for banks and to insist on consolidation of the accounts of banks and their affiliates. The BRSA will require the fulfilment of this condition in the very near future.

17 It is emphasized that the ratio of non-performing loans to gross loans of the banking system has increased to 17.7 percent as of August, 2001 and that this ratio is expected to grow further because of the economic downturn. Strict enforcement of the rules in such an environment would lead to further takeovers of private banks by SDIF. The budgetary burden would then make the country's debt dynamics more difficult.

18 The state banks to be privatized within three years are Ziraat Bank and Halk Bank. The government has withdrawn the banking license of Emlakbank, and it will resume the privatization process of Vakifbank as soon as market conditions allow.

19 Law 4502.

20 Law 4673.

21 The Commission Directive 90/388/EEC adopted on June 28, 1990 initiated the opening to competition of the telecommunications services market by providing for the removal and exclusive rights granted by Member States to Telecommunications Organizations for the supply of value-added services by the end of 1990 and data services by January 1, 1993. Over the following years, an extensive package of telecommunications legislation was enacted to enforce and broaden liberalization of the sector. Finally, the Commission adopted, in February 1996, a Directive on full competition. Directive 96/19/EC calls on Member States to take the necessary steps in order to ensure that markets are fully open by January 1, 1998. Since 1998, the EU has a fully competitive telecommunications market in all Member States but

five. Portugal, Spain, Greece, Ireland, and Luxembourg have derogations and have postponed the introduction of full competition until 2002 at the latest.

22 The Electricity Market Law No. 4628 was enacted in February 2001 and published in the *Official Gazette* on March 3, 2001.

Table A3.1: Arrangements Applicable to the Importation into Turkey of Agricultural Products Originating in the EU

HS	HS	Commodity	Quantity Imported TON	Quantity Imported from EU TON	Imports 1000 US Dollar	Imports from EU 1000 US Dollar	Share of Imports from EU	MFN Duty (%)	Reduction of MFN Duty (%)	Tariff quota (tonnes)
	40210190000	Milk and cream in powder, granules of a fat content not exceeding 1.5%	4,580.1	3,047	7,586.7	4,859.4	64.1	130	100	1,500
	40221190000	Milk and cream in powder, granules of a fat content exceeding 1.5%	3,007.9	2,922.9	6,383.5	6,252.8	98	130	100	2,500
0405		Butter and other fats and oils derived from milk, dairy spreads							100	3,000
	40510110000	Butter derived from milk in packages not exceeding 1 Kg and containing fat less than 85%	237	177	599.5	480.1	80.1	70		
	40510190000	Other butter derived from milk containing fat less than 85%	3,824.7	3,737.3	7,661.5	7,484.5	97.7	70		
	40510900000	Butter, other	479.2	439.2	879.2	807.2	91.8	70		
	40590900000	Other fats obtained from milk	522	363.7	975.3	695.1	71.3	70		
040630		Processed cheese, not grated or powdered							100	300
	40630310000	Processed cheese, not grated or powdered (fat content less than 48%)	96.8	96.8	392.1	392.1	100	83		
	40630390000	Processed cheese, not grated or powdered (fat content more than 48%)	137.2	137.2	386.7	386.7	100	83		
040690		Other cheese							100	2,000
	40690130000	Emmenthaler cheese	51.8	51.8	287.8	287.7	100	83		
	40690210000	Cheddar cheese	1,138.9	363	1,948.2	633.6	32.5	47.5		
	40690330012	Other white cheese	311.4	311.4	631.8	631.8	100	50		
	60110901000	Flower bulbs	272.3	272.3	920.2	920.2	100	7	100	200
060290		Live plant, other							100	3,000
	60290100000	Mushroom spawn	531.7	505	903.4	865.3	95.8	4		
	60290450011	Cuttings of other trees	285.9	188.9	2,084	1,421.6	68.2	4		
	60290450012	Seedlings of other trees	27.7	27.3	280.1	275.6	98.4	4		
	60290490000	Cuttings and buds of other trees	18,803.3	18,355.9	12,110.9	11,948	98.7	4		
	60290510000	Cuttings of relatively old plants grown outside	275.7	274	280.6	279.5	99.6	4		
	60290590000	Seedlings of cuttings of plants grown outside	4,014.9	3,829.9	4,023.3	3,851.3	95.7	4		
	60290700011	Cuttings of indoor plants	392.4	369.6	681.9	626.9	91.9	4		

Continuation from Table A3.1

	60290990000	Other live plants	1,198.5	1,037	2,506.6	2,263.1	90.3	22		
	70110000000	Potato seed	12,270.1	9,090.7	5,679.6	4,635.8	81.6	22	100	5,000
	80810500000	Apples, Granny Smith	2,626.8	540.5	1,117.8	232.3	20.8	63.6	100	1,000
	90230000000	Black tea (fermented)	327.2	164.6	694.5	481.5	69.3	145	max 45%	200
	100190990011	Other wheat mainly for bread	1,682,432.6	163,021.8	225,950.3	25,092.8	11.1	55	100	200,000
100300		Barley (white)							100	46,000
	100300900011	Barley (white)	65,423.3	65,423.3	7,303.2	7,303.2	100	85		
	100300900019	Other barley	126,382.9	34,767	10,593.9	3,302.5	31.2	85		
	100590000000	Other maize	765,182.7	11,431.7	90,181.9	1,312.1	1.5	60	100	52,000
100630		Semi-milled or wholly milled rice							100	28,000
	100630940000	Semi-milled or wholly milled rice (medium size)	179,918.7	10,644.9	61,014.6	3,982.9	6.5	35		
	100630960000	Semi-milled or wholly milled rice (length > 2, width < 3)	25,310.7	23,412.9	12,421	11,698.3	94.2	35		
	120720900000	Cotton seeds	114,621.1	6,955.4	18,298.1	1,222	6.7	4	100	1,500
	120911000000	Beet seed, sugar beet seed	328.1	328.1	6,074.1	6,074.1	100	3.9	100	300
1209		Seeds, fruit, and spores for sowing except 12091100							100	1,000
	120923150000	Seeds of forage plants, other than beet seed - fesume seed	350.9	330.9	637.1	588	92.3	21		
	120923800019	Seeds of forage plants, other than beet seed - other	387.2	315.4	676.5	557.1	82.4	21		
	120924000000	Seeds of forage plants, other than beet seed - Kentucky blue grass	213.3	213.3	506.6	506.6	100	21		
	120925900000	Seeds of forage plants, other than beet seed - English rye grass	635.5	634.9	1,089.8	1,088.7	99.9	21		
	120929800019	Seeds of forage plants, other than beet seed-other	409.9	289	1,137.3	758.8	66.7	21		
	120930000000	Seeds of herbaceous plants cultivated principally for flowers	1.9	1.4	533.6	372.6	69.8	6		
	120991900012	Tomato seed	34.3	15.6	17,118.6	4,313.1	25.2	21		
	120991900013	Cucumber seed	22.9	10.6	3,328.2	2,507.6	75.3	21		
	120991900014	Onion seed	22.7	11.9	775.4	424.1	54.7	21		
	120991900015	Carrot seed	12.9	12.8	465.8	461.8	99.2	21		
	120991900019	Other vegetable seed	83.7	51.5	4,657.8	3,448.9	74	21		
	120999999012	Watermelon seed	66.4	33.2	3,012.6	1,763.2	58.5	21		
	120999999013	Melon seed	5.8	2.7	1,056.4	243.8	23.1	21		
1502		Fats of bovine animals, sheep, or goats							100	3,000
	150200109000	Other fats of bovine animals, sheep, or goat for the use of industry	117,983	1,957.6	63,158.6	1,031.2	1.6	4		
	150200900011	Other bovine fats	49,847.8	41,562.7	8,595.3	3,697.9	43	4		

Continuation from Table A3.1

150710	Soya oil							100	60,000
150710100000	Soya bean crude oil, technical use	14,913.6	11,510.1	10,145.5	7,906.8	77.9	12		
150710900000	Soya bean crude oil, other use	137,901.1	103,415.1	90,863.4	67,317.1	74.1	12		
151211910000	Sunflower seed or safflower crude oil	156,673.6	12,392.4	102,695.8	9,437.5	9.2	38	100	18,000
151410900011	Rape and colza or mustard crude oil	13,239.2	12,303.2	8,788.3	8,187.4	93.2	12	100	10,000
170199100011	Cane or beet sugar and chemically pure sucrose, in solid form, other than raw sugar	4,959.7	3,292.7	1,557.7	1,032.4	66.3	142.5	20	80,000
200290910000	Tomatoes prepared, other	2,309.7	351.6	2,027.7	315.4	15.6	143.4	100	1,500
220900990000	Vinegar and substitutes obtained from acetic acid	1,280.7	1,280.4	443.7	443.6	100	44.5	100	2,500
230120000011	Flours, meals and pellars, of meat or meat offal, or fish or of crustaceans	41,957.6	1,330.1	32,044.9	1,048.7	3.3	2	100-	
230400000000	Cake and other solid residues from soya-bean oil	390,253.5	3,836.6	88,043.3	871	1	2	100-	
230910	Dog or cat food, put up for retail sale							100	1,000
230910110000	Dog or cat food, put up for retail sale (milk products < 10%, starch content)	1,991.7	896.3	2,820.9	1,360.3	48.2	8.9		
230910510000	Dog or cat food, put up for retail sale (milk products < 10%, starch content)	644.7	150.2	1,071.2	245.9	23	8.9		
230910900000	Other dog or cat food, put up for retail sale	1,298.7	1,037.2	1,472.1	1,223.3	83.1	8.9		
230990	Other preparations of a kind used in animal feeding							100	6,000
230990350000	Other preparations of a kind used in animal feeding (starch content < 10%)	374.3	374.3	304.7	304.7	100	8.9		
230990930011	Other preparations of a kind used in animal feeding as additive	8,694	6,731.2	14,498.3	10,028	69.2	0		
230990930019	Other preparations of a kind used in animal feeding, mixed beforehand	348.5	280.4	333.7	243	72.8	8.9		
230990950000	Other preparations of a kind used in animal feeding, weight > 49%	1,309	621.6	1,233.6	583.6	47.3	8.9		
230990979011	Other preparations of a kind used in animal feeding made from fish	301.5	268.8	883.7	785.2	88.8	8.9		
230990979019	Other preparations of a kind used in animal feeding - others	550.4	401.2	381.9	310.2	81.2	8.9		

Source: Author's calculations.

Table A3.2: Arrangements Applicable to the Importation into the Community of Agricultural Products Other Than Fruits and Vegetables Originating in Turkey

HS	Description	1999 Turkish Exports to EU (US Dollars)	Tariff Rates Applied by EU on Imports from Third Countries	Ad Valorem Duty on Imports from Turkey: Ad Valorem Duty	Ad Valorem Duty on Imports from Turkey: Tariff Quota (tonne)	Specific Duty On Imports from Turkey: in Quota Duty	Specific Duty On Imports from Turkey: Tariff Quota (tonne)	Over Quota Duty on Imports from Turkey
0204	Meat of sheep or goat	123,880	78.10 - 157.20	0	-	0	200	
020725	Frozen turkeys	-	20.85				1000	
02072510		-				ECU/t 170		
02072590		-				ECU/t 186		
020727	Frozen cuts of turkeys	-	27.64					
02072730		-				ECU/t 134		
02072740		-				ECU/t 93		
02072750		-				ECU/t 339		
02072760		-				ECU/t 127		
02072770		-				ECU/t 230		
040690	Cheese		67.76					
04069029		338				0	1500	ECU 67,19/100 kg
04069031		804,042						
04069050		-						
04069086		-						
04069087			-					
04069088		-						
0811							100	
08111011	Frozen strawberries	125,928	25.27	0	-	0		
08112011	Frozen raspberries	-	19.89	0	-	0		
08119019	Other fruits, frozen	1,122	18.93	0	-	0		
10020000	Rye	-	103.90			Reduction according to Article 3(4)		
1107	Malt	1,538						

Continuation from Table A3.2

110710			50.40			Reduction of ECU/t 6,57	
11072000			29.30			Reduction of ECU/t 6,57	
1509	Olive oil						
15091010		-	81.30			10% reduction	
15091090		121,068,014	81.30			10% reduction	
15099000		-	69.90			5% reduction	
151000	Other olive oil						
15100010		-	79.20			.10% reduction	
15100090		2,201,779	79.20			5% reduction	
2002	Prepared tomatoes				8000		
200210		3,622,783	16.80	0			
20029011		485,353	16.80	0			
20029019		78,337	16.80	0			
2002	Prepared tomatoes						
20029031		12,924,543	16.80	0	30000 t		
20029039		4,760,473	16.80	0			
20029091		5,718,862	16.80	0			
20029099		256,187	16.80	0			
2007							
20079130	Prep. of citrus fruit, with sugar	-	32.50	0	-	0	100
20079939	Other preperations with sugar	1,000,696	39.26	0	-	0	100
200850	Apricot pulp				600		
ex 20085092		481,445	25.39	0			
ex 20085094		27,604	25.39	0			
2204	Wine						
220410	Sparkling wine	32,099	9.80		0	-	
220421	Other wine, 2 litres or less	4,196,588	8.70		0	-	
220429	Other	2,224,958	17.70		0	-	
220600	Other fermented beverages	2,358	8.51		0	-	
ex 2007	Undenatured ethyl alcohol		-	28.00 - 39.26		0	-
200900	Vinegar and substitutes		-			0	-

Source: Author's calculations.

Table A3.3: Arragements Applicable to the Importation into the Community of Fruits and Vegetables Originating in Turkey

		1999 Turkish Exports to EU (US Dollars)	Tariff Rates Applied by EU on Imports from Third Countries	Time Period	Tariff Rates Applied by EU on Imports from Turkey during the Specified Time Periods	Tariff Quota (tonne)
ex 070190	Potatoes	805,142	13.85	January 1 - March 31	0	-
070310	Onions	444,377	11.20			
ex 07031011				February 15 - May 15	0	-
ex 07031019				February 15 - May 15	0	-
ex 07031011				May 16 - February 14	0	2,000
ex 07031019				May 16 - February 14	0	2,000
070820	Beans	460,017	13.37			
ex 07082020				November 1 - April 30	0	-
ex 07082095				November 1 - April 30	0	-
ex 07089000				July 1 - April 30	0	-
070930	Aubergines	1,546,945	14.90			
ex 070930				January 15 - April 30	0	-
ex 070930				May 1 - January 14	0	1,000
070940	Stick celery	8,598	14.90			
ex 07094000				January 1 - April 30	0	-
070990	Fresh or chilled vegetables N.E.S.	179,561	13.08			
07099071	Courgettes			December 1 - end of February	0	-
ex 07099073	Courgettes			December 1 - end of February	0	-
ex 07099079	Courgettes			December 1 - end of February	0	-
070990	Fresh or chilled vegetables N.E.S.					500
ex 07099073	Courgettes			March 1 - November 30	0	

Continuation from Table A3.3

07099075	Courgettes			March 1 - November 30	0	
07099077	Courgettes			March 1 - November 30	0	
ex 07099079	Courgettes			March 1 - November 30	0	
070990	Fresh or chilled vegetables N.E.S.					
ex 07099090	Pumpkins and courgettes			December 1 - end of February	0	-
ex 07099090	Other wild onion			February 15 - May 15	0	-
080221- 22	Fresh or dried hazelnuts	354,662,275	3.70			
08022100					3	-
08022200					3	-
080610	Fresh table grapes	21,850,312	16.10			
08061021				Nov. 15 - April 30 & June 18 - July 31	0	-
ex 08061029				Nov. 15 - April 30 & June 18 - July 31	0	-
08061030				Nov. 15 - April 30 & June 18 - July 31	0	-
ex 08061040				Nov. 15 - April 30 & June 18 - July 31	0	-
ex 08061050				Nov. 15 - April 30 & June 18 - July 31	0	-
08061061				Nov. 15 - April 30 & June 18 - July 31	0	-
08061069				Nov. 15 - April 30 & June 18 - July 31	0	-
080711	Watermelon	784,893				
ex 08071100				April 1 - June 15	0	-
ex 08071100				June 16 - March 31	0	14,000
080719	Melons	1,437,680				
ex 08071900				November 1 - May 31	0	-
080940	Plums	1,278,413				
ex 08094010				May 1 - June 15	0	-
ex 08094020				May 1 - June 15	0	-

Source: Author's calculations.